DOMTAR®

1980 Sales Breakdown

		Products
Pulp & Paper Products	Fine Papers 26.4%	Uncoated and coated fine papers for the printing and converter trades; specialty papers including diazo base, glassine, grease-proof and carbonizing.
	Newsprint and groundwood specialties 13.0%	Standard newsprint and groundwood specialty and coated publication grade papers.
	Pulp 5.1%	Bleached and unbleached softwood and hardwood sulphate pulp; semi-bleached softwood sulphate pulp; unbleached sulphite pulp and thermo-mechanical pulp.
	Woodlands and Lumber 2.3%	Kiln dried spruce and pine dimension lumber and studs.
	Envelopes 0.8%	Envelopes and specialty bags.
Packaging	Corrugated containers and containerboard 13.2%	Corrugated shipping containers and displays. Linerboard, corrugating medium.
	Kraft papers 3.0%	Kraft papers and boxboard.
	Composite cans 1.2%	Composite metal-paper containers for foodstuffs, automotive oils and other consumer products.
	Specialty papers 0.9%	Plain and reinforced gummed tapes; photocopy paper and coated paper for wrappings.
Construction Materials	Arborite®, Fiberglas (*) insulation and masonry 6.9%	ARBORITE® decorative and industrial plastic laminates; particleboard and CLADBOARD® decorative laminates. Clay brick. Plastic conduit. National distributor of FIBERGLAS(*) building insulation.
	Roofing, fibre and ceiling tiles 5.1%	Asphalt shingles, roll roofing and siding. Roof sheathing, panel board, ceiling tiles, grid panels, non-combustible grid panels.
	Gypsum America 3.9%	Gypsum wallboard, lath, wall panelling, plasters and associated products.
	Gypsum Canada 3.7%	Gypsum wallboard, lath, wall panelling, plasters and associated products.
Chemicals	Sifto® salt 4.9%	SIFTO® Salt products — ice control, chemical, industrial and table salt.
	Specialty chemicals and coal tar derivatives 4.0%	Synthetic detergents; wetting agents, carboxymethyl-cellulose; dyestuffs and pigments; coal tar pitches, tars and other distillates, creosote, naphtalene oil.
	Wood preserving 3.2%	Pressure treated wood products for utility, railway, construction and agricultural use.
	Lime 2.4%	Limestone, hydrated lime and quicklime for the steel, paper and glass industries.
	Gas	Exploration and development principally in the "Deep Basin" and "Shelf" areas of Northwestern Alberta and Northeastern British Columbia and in certain United States locations.

Domtar
Location
Map
A Fine Papers
B Newsprint and groundwood specialties
C Pulp
D Woodlands and Lumber
E Envelopes
F Corrugated containers
G Containerboard
H Kraft papers
I Composite cans
J Specialty papers
K Arborite®, Fiberglas (*) insulation
L Masonry and plastic conduit
M Gypsum America
N Gypsum Canada
O Roofing
P Fibre and ceiling tiles
Q Sifto® salt
R Specialty chemicals
S Coal tar derivatives
T Wood preserving
U Lime
V Gas and oil
British Columbia
Alberta
Saskatchewan
Manitoba
Ontario
Québec
New Brunswick
Washington
Wyoming
California
South-Western Ontario
Illinois
Ohio
New York
Pennsylvania
Montréal
Arkansas
Texas
Louisiana
Mexico

Contents

Highlights

For the year	**1980**	1979
Millions of Canadian dollars		
Sales	**$ 1,653**	$ 1,495
Earnings before extraordinary items	**97**	98
Net earnings	**95**	98
Cash flow from operations	**168**	164
Capital investments — existing businesses	**117**	93
— new businesses	**11**	67
Per common share		
Earnings before extraordinary items	**5.78**	6.57
Net earnings	**5.66**	6.57
Dividends	**2.00**	1.80
Cash flow from operations	**10.04**	11.01
Return on capital employed (note 1)	**12.2%**	14.8%
Return on common shareholders' equity (note 2)	**18.6%**	23.3%
Common shares		
Market price (Toronto Stock Exchange) — High	**$ 30¾**	$ 29¼
— Low	**$ 21¾**	$ 22⅜
Trading volume (note 3) — Canada	**3,757,000**	3,772,000
— United States	**1,636,000**	2,229,000
At year end		
Debt/equity ratio	**27:73**	26:74
Book value per common share	**$ 33.36**	$ 30.54

Notes:

1. "Return on capital employed" is defined as earnings before extraordinary items plus minority interest and long-term debt interest after tax as a percentage of the annual average of total assets less current liabilities.

2. "Return on common shareholders' equity" is defined as earnings before extraordinary items less preference dividends as a percentage of the annual average common shareholders' equity.

3. Trading volume: — in Canada is the sum of the common shares of the Corporation traded on the Toronto, Montreal and Vancouver Stock Exchanges;

   — in the United States is the number of common shares of the Corporation traded on the American Stock Exchange.

   The shares are also listed on the Amsterdam Stock Exchange.

Report of the Directors to the Shareholders

Net Earnings

Net earnings amounted to $95 million in 1980, marginally lower than the $98 million earned in the peak year of 1979. The 1980 earnings were after:

■ An extraordinary loss of $2 million, resulting from the closing of the Corporation's fine paper mill in the United Kingdom offset by the gain on the sale of a 26% investment in the shares of Consoweld Corporation.

■ The loss of profit due to work stoppages at the three fine paper mills in Ontario and the two lumber mills in Québec estimated at $12 million before income taxes.

Without these factors, the 1980 earnings would have approximated $103 million and $5 million or 5% over 1979.

Factors affecting earnings:

■ Improved margins in the Chemicals, Packaging and Pulp and Paper Products Groups, except in the Lumber division.

■ Lower margins and sales volumes in the Construction Materials Group due to the combined impact of an economic slowdown and the depressed level of construction activity.

■ Higher short-term investment income due to an increased level of cash on hand throughout the year as the Corporation financed in advance its capital investment program.

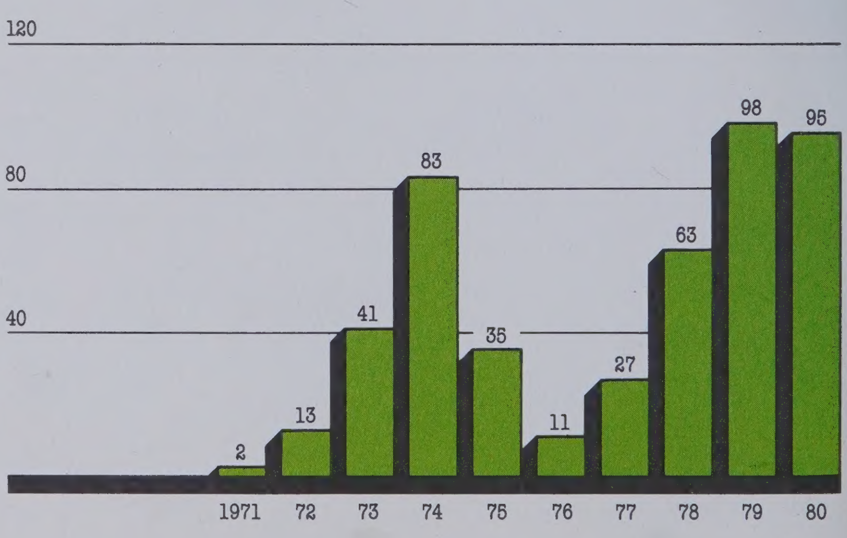
■ Reduced charges for interest on indebtedness resulting from the accounting policy introduced in 1980 of capitalizing interest on major capital projects.

Earnings per Share and Return on Shareholders' Equity

Net earnings per common share (after the extraordinary loss of $0.12 per share) was $5.66 compared to $6.57 per share in 1979. The number of common shares outstanding increased by 18% in 1980 due to the issue of 2.6 million shares in the first quarter and the shares issued as a result of the stock dividend plan announced in the third quarter.

The return on shareholders' equity, at 18.6%, was below the high of 23.3% attained in 1979 mainly as a result of the additional equity issued in 1980.

Net Earnings
(millions of Canadian dollars)



Dividends

■ The quarterly dividend on the common shares was increased from $0.45 to $0.50 per share in the first quarter of 1980. This resulted in an annual dividend of $2.00 per share as compared to $1.80 in 1979.

■ Domtar adopted three new dividend plans which constitute additional options to receiving the present cash dividend in Canadian funds:

- cash in U.S. funds;
- stock dividends in the form of newly issued common shares;
- cash dividends reinvested in shares purchased on the market.

■ Shareholders were also given the right to make optional payments to Domtar of up to $2,000 each quarter for the purchase of its common shares on the market.

■ In 1981, the Corporation intends to revise the dividend reinvestment plan so that shares are not purchased on the market but are issued from Treasury stock so as to be eligible as an investment under the Québec Stock Savings Plan.

Cash Flow and Position

■ The cash position at January 1, 1980 was $39 million.

■ The businesses continued to generate a strong cash flow from operations — $168 million.

■ In addition, the Corporation during 1980 raised:

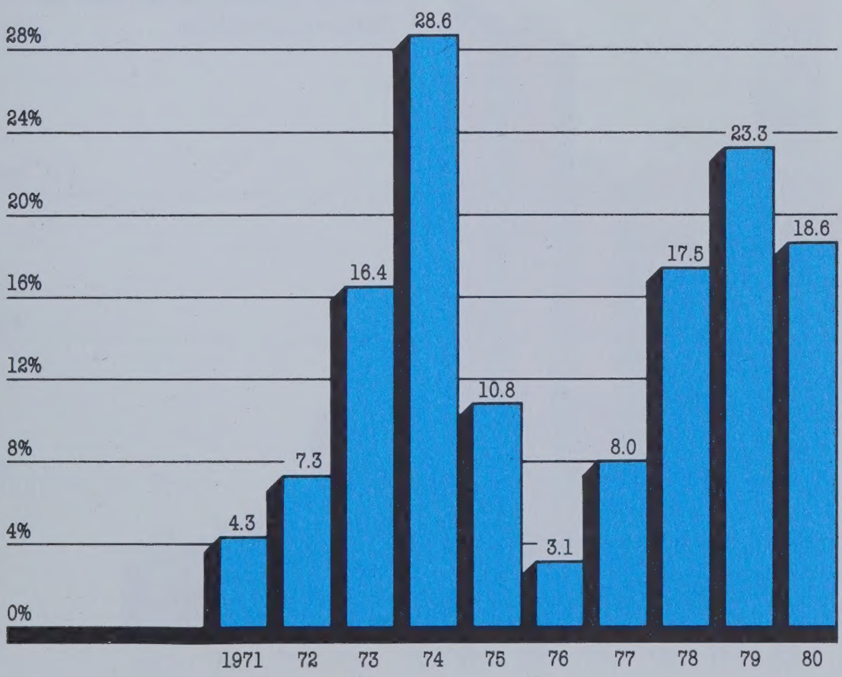
- $69 million from an issue of common shares;
- $49 million from an issue of long-term debt.

■ Funds spent in 1980 totalled $176 million including expenditures of:

- $128 million for fixed assets and new businesses;
- $35 million for dividends.

■ The cash position at the end of the year was $152 million which will be required to support the 1981 capital investment program.

Return on Common Shareholders' Equity



Capital Investment Program

Domtar estimated in its 1979 Annual Report that it would spend some $366 million on capital investments during 1980-81. In 1980, expenditures amounted to $117 million. It is estimated that capital expenditures during 1981 will total approximately $210 million excluding expenditures relating to possible acquisitions of businesses. Almost half of these fixed asset expenditures will be used to maintain current operating capacity while the balance will be applied to capacity increases, product and process improvements and major cost reduction programs.

Projects substantially completed during 1980 were:

■ Conversion of an ore carrier to carry gypsum rock from the mine in Mexico to Domtar's four wallboard plants and customers on the West Coast of both the United States and Canada.

■ Conversion (phase II) to refiner-mechanical pulping at the Québec groundwood specialties mill at Donnacona.

■ Construction of a high density pulp storage tank at Lebel-sur-Quévillon, Québec to improve efficiency and increase annual capacity by 10,000 tons.

Major projects underway in 1980 were to:

■ Expand the salt mine at Goderich, Ontario at an estimated cost of $37 million. This 55% capacity increase is to be completed in 1983.

■ Complete a rock salt processing plant and storage terminal in Chicago, Illinois by mid 1981. The terminal will serve as a storage and distribution centre for rock salt produced at the Corporation's mines at Goderich, Ontario and Cote Blanche, Louisiana.

■ Install a new recovery furnace for the Red Rock, Ontario linerboard and newsprint mill by 1982.

■ Construct a plant in Toronto to process used corrugated containers as waste fibre, thus continuing Domtar's efforts to make the fullest possible use of waste paper through its manufacturing operations.

■ Expand and modernize the Winnipeg, Manitoba plant of the Corrugated Containers division by mid 1981. Capacity is expected to increase by 35%.

■ Construct a new gypsum wallboard plant at Tacoma, Washington to serve the northwestern United States market. This plant is expected to be in production by late 1981.

■ Expand the gypsum wallboard plant near Vancouver, British Columbia, to increase capacity by 30%.

■ Modernize the Cornwall fine paper mill.

■ Invest further in exploration and development of gas and oil via Canadian Hunter Exploration Ltd.

Capital projects to be initiated in 1981 include:

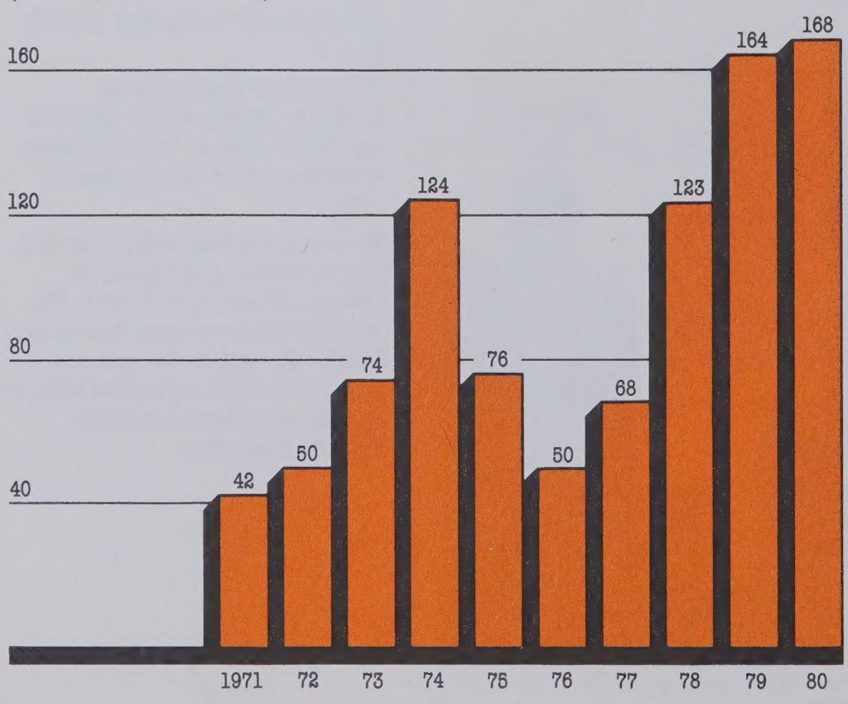
■ A wood waste boiler to reduce energy costs at the newsprint mill at Dolbeau, Québec.

■ The phase III (final) conversion to refiner-mechanical pulping furnish at the mill in Donnacona, thereby reducing wood costs and ensuring compliance with environmental standards.

■ An expansion of the newly acquired corrugated container plant in Vancouver and a reorganization of equipment between various corrugated container plants across Canada to capitalize more fully on their potential.

■ A wide variety of profit improvement projects across virtually all businesses.

Cash Flow
(millions of Canadian dollars)



Acquisitions and New Businesses

■ Currently, Domtar is actively seeking and reviewing acquisition opportunities, particularly in the United States in both related and unrelated businesses.

■ During 1980, the Corporation:

- purchased two corrugated container plants in Vancouver and Edmonton and a distribution warehouse in Penticton from Belkin Packaging Limited to increase its capability to service customers in Western Canada;
- exercised an option to invest in American Hunter Exploration Ltd., a wholly owned subsidiary of Canadian Hunter Exploration Ltd., to explore for oil and gas in the United States. Several extensive "plays" or blocks of acreage are being developed and the first drilling has begun.

■ To date, in 1981, there are two outstanding purchase offers which will involve some $36 million:

- Delta Brick and Tile Company Inc., a company with three plants in Mississippi specializing in light coloured brick;
- assets of Grand Rapids Gypsum Company, a gypsum mine and wallboard plant serving customers in Michigan.

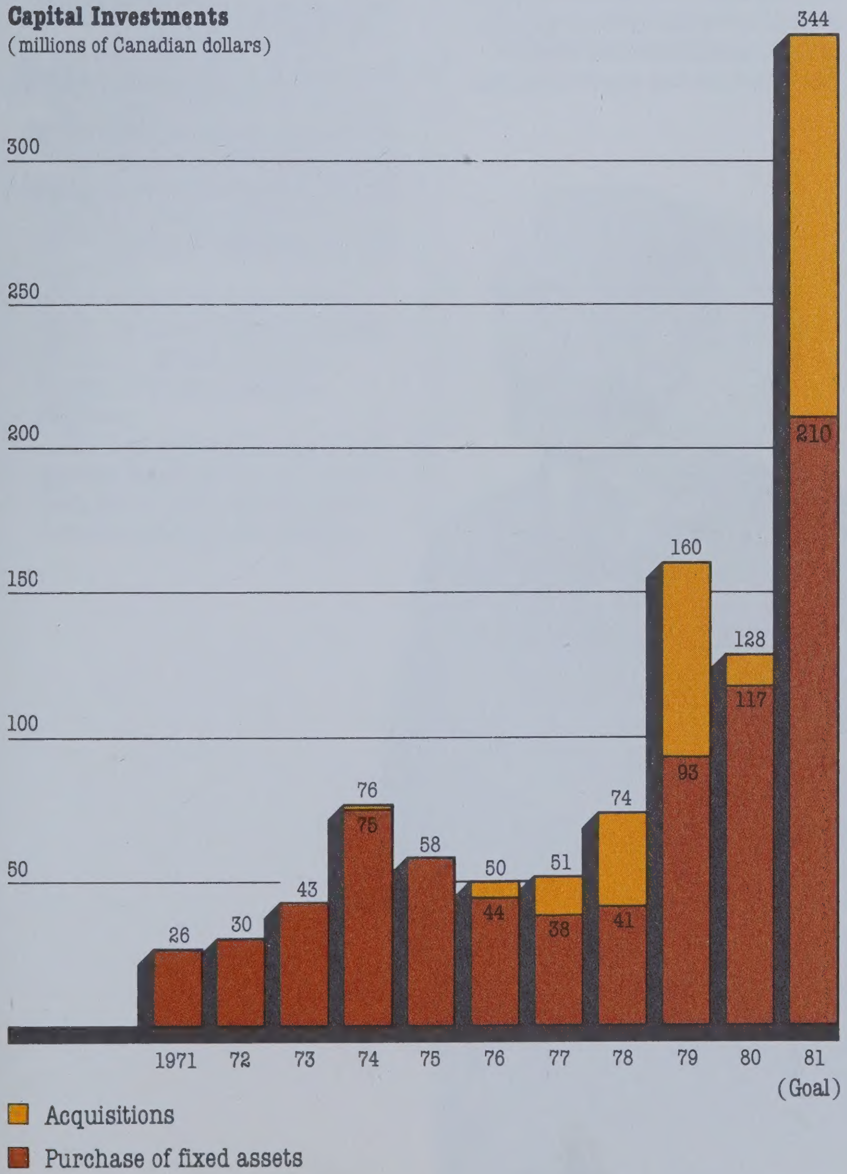
■ Funds have been provided for future acquisitions.

Strategic Divestitures

In light of the Corporation's strategic investment policy, the Operating Groups have taken action to dispose of assets or investments which do not meet corporate objectives:

- The fine paper mill in Sunderland, England was closed due mainly to the rise of the British pound which prevented many such mills in the United Kingdom from competing with European imports.
- The lime plant at Hespeler, Ontario was closed in the first quarter of 1980 due to the low profitability of its product line.
- After the acquisition of the two corrugated container plants from Belkin Packaging Limited, the sheet plant in Vancouver was sold in order to rationalize the division's product lines.
- The Construction Materials Group disposed of its 26% investment in shares of Consoweld Corporation, a United States company operating in the decorative laminate industry.
- In early 1981, the lime facilities in Tacoma, Washington were sold so as to concentrate on eastern North American markets.

Capital Investments
(millions of Canadian dollars)



Financing

Domtar's capital investment program covers a five year period. Many projects take several years to bring into production. To fund this program, Domtar must utilize long-term financing instruments. The financial markets in 1980 were particularly volatile. The availability of long-term financing at reasonable interest rates occurred infrequently during 1980. Domtar, therefore, obtained funds when they were available though in advance of its spending requirements.

- 2.6 million common shares were issued for $69 million.
- U.S. $42 million (Cdn. $49 million) of 12¼% sinking fund debentures Series "I" due 2000 were placed privately with investors in the United States.
- The Corporation has filed a registration statement with the United States Securities and Exchange Commission covering a public offering of U.S. $100 million of long-term debentures.
- Domtar has arranged for an additional $250 million of credit lines with Canadian banks.

Labour Relations

■ The Corporation renewed 59 collective agreements during 1980 with the only significant disruptions to its operations being at the fine paper mills in Cornwall, Don Valley and St. Catharines, Ontario and the lumber mills in Quévillon and Mistassini, Québec. There are still 32 outstanding negotiations to be completed in 1981.

■ Whereas wage settlements in the Chemicals and Construction Materials Groups averaged 10.9% per annum, the level of settlements in the Newsprint and Pulp divisions was high. Wage increases amounted to 16.7% on the average wage rates in the first year and 9.7% in the second. These settlements were similar to those agreed to by Abitibi-Price Inc. at its primary mills. Domtar is concerned that such settlements in the Eastern Canadian pulp and paper industry will seriously undermine its cost competitive position vis-à-vis the United States. Much of the prosperity of the Canadian industry is based on the currently favourable rate of exchange between the Canadian and the United States dollars.

■ The present dispute at the three fine paper mills in Ontario arises because the union is demanding a settlement on terms similar to those negotiated at Domtar's pulp, newsprint and packaging locations. However, the competitive pressures facing the fine paper industry are different from those affecting the newsprint, pulp and packaging industries. The Canadian fine paper industry must continuously compete against the United States fine paper industry. Currently, approximately 15% of the Canadian fine paper market is supplied by imports from the United States. Present tariffs partially protect the Canadian industry from foreign competitors. However, these are being gradually reduced by 50% between 1980 and 1987 under recently concluded GATT agreements. In addition, the 20% of Canadian fine paper production which is being exported to the United States and offshore markets must face competition from mills in the United States. The implementation of a settlement based on those of the newsprint, pulp and packaging locations would undermine the competitive position of the Canadian fine paper industry.

Outlook for 1981

■ Due to its diversity, the Corporation generally expects the effect of the economic slowdown on some businesses to be offset by growth in others.

■ The labour picture is clouded by strikes underway at the Corporation's three Ontario fine paper mills and at its two lumber mills in Québec.

■ Slow growth and inflation in North America will make margins difficult to maintain.

■ High interest rates, if they continue, will again adversely affect the Corporation's construction materials and lumber businesses.

■ Domtar in recent years has made investments and has taken other actions to increase capacity and efficiency. When the economy improves, Domtar will be more able to operate closer to its new capacity and realize better margins.

Alex E. Barron

Alex E. Barron
Chairman of the Board

Long Term Goals

■ As stated in the 1978 and 1979 Annual Reports, Domtar will continue to upgrade its product mix and channel its investment to Canadian and United States businesses which are:

- cost competitive in their markets;
- enjoying customer acceptance and a prime market position;
- growing at least with the general economy;
- potentially profitable taking into account current trends in energy costs, tariff policies and foreign exchange rates.

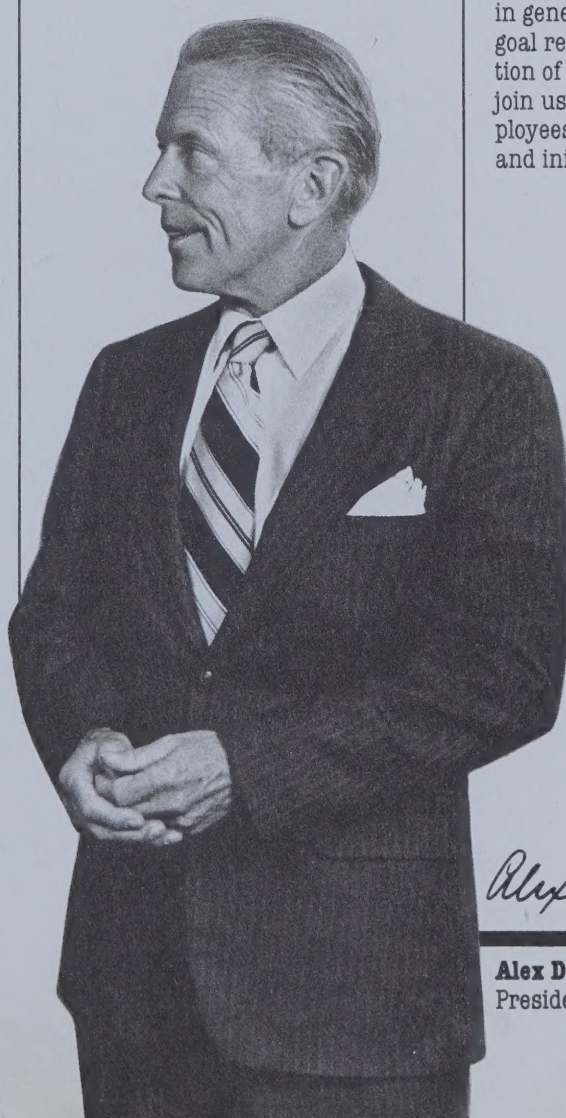
■ We are also now stressing the following criteria:

- superior technology or products;
- superior business management or organization;
- vertical or horizontal synergy.

■ The major moves in 1980 to achieve these goals included:

- the expansion and upgrading of the two salt mines and the installation of warehouse facilities in the United States Mid-West to more strategically serve our markets;
- the acquisition of two corrugated container plants in Western Canada to become Canada's largest national integrated supplier;

  the continued expansion of the gypsum business through cost competitive plants and mines in Canada and the United States;
- the embryo oil and gas exploration program with American Hunter Exploration Ltd. in the United States;
- the labour dispute at the three Ontario fine paper mills to maintain the cost competitiveness of the fine papers business while continuing a major modernization program at the Cornwall, Ontario mill;
- the development of a sulphur free pulping process to develop an acceptable pollution abatement program at the mill at Windsor, Quebec and to take advantage of its low cost supply of hardwood;
- a corporate development program to explore investing in new businesses which achieve Domtar's goals, particularly those with superior technology or products;
- the divestiture or closure of six businesses due to doubt about their long term viability.



Segmented Information

In 1980, Domtar is expanding its segmented reporting to provide detailed information by businesses within each Operating Group. Readers of the 1980 Annual Report will thus be better able to understand the diversity of the Corporation as management structures it for the challenge of the 80's. This supplementary segmented information generally relates directly to the business; however, management on occasion had to make some allocation on the basis of reasonable judgment.

Board of Directors

During 1980 Mr. Lodwrick M. Cook, Executive Vice-President of Atlantic Richfield Company, and Mr. Gilles Blondeau, President of Groupe Optimum Inc., were elected to fill vacancies on the Board of Directors.

Appreciation

Domtar believes that continued growth and productivity improvement are a fundamental corporate responsibility benefitting shareholders, employees and the community in general. The attainment of this goal rests on the skills and dedication of its employees. The Directors join us in thanking all Domtar employees for their hard work, loyalty and initiative.

Alex D. Hamilton

Alex D. Hamilton
President and Chief Executive Officer

Directors and Officers

General Management

Board of Directors

Alex E. Barron, Toronto,
President, Canadian General Investments Limited

Gilles Blondeau, Montréal,
President, Groupe Optimum Inc.

L. M. Cook, Los Angeles,
Executive Vice-President and Director, Atlantic Richfield Company

Pierre Côté, C.M., Québec,
Chairman of the Board, Celanese Canada Inc.

H. Roy Crabtree, Montréal,
Chairman of the Board and President, Wabasso Inc.

D. Steele Curry, Calgary,
President and Chief Executive Officer, Revelstoke Companies Ltd.

Committees of the Board

Executive Committee
Alex E. Barron, Chairman
Pierre Côté
H. Roy Crabtree
Alex D. Hamilton
J. G. Kirkpatrick
Yves Pratte
Arthur Ross

Audit Committee
Pierre Côté, Chairman
Alex E. Barron
H. Roy Crabtree
Robert Després
J. G. Kirkpatrick

Investment Committee for the Pension Plans
Alex D. Hamilton, Chairman
Alex E. Barron
D. Steele Curry
Robert Després
Lorne C. Webster

Officers and General Management

Chairman of the Board
A. E. Barron

President & Chief Executive Officer
A. D. Hamilton

Executive Vice-President
W. R. Lawson

Domtar Gypsum America Inc.

Executive Vice-President
J. H. Robertson

Vice-President & Secretary
S. A. Kerr

Assistant Vice-President, Assistant Secretary & General Counsel
A. Gascon

Assistant Secretary
G. Pharand

Vice-President — Labour Relations
J. B. O'Reilly

Vice-President — Human Resources
W. L. P. Fournier

Pulp & Paper Products Group
President
R. R. Pinard

Domtar Fine Papers
Vice-President & General Manager
B. R. Grant

Domtar Forest Products
Vice-President
A. S. Fleming

Dominion Envelope
President
P. S. Newell

Executive Vice-President
R. A. Ashby

Domtar Newsprint
Vice-President & General Manager
G. R. Simpson

Domtar Pulp
Vice-President & General Manager
S. S. Hessian

Packaging Group
President
J. H. Smith

Corrugated Containers Division
Vice-President & General Manager
E. R. Puddington

Kraft Paper & Board Division
Vice-President & General Manager
J. A. J. Meyers

Domtar Sonoco Containers Inc.
President
T. J. Stinson

Eastern Coated Papers Limited
President
P. S. Dunnett

Robert Després, C.M., Québec,
Chairman of the Board,
Atomic Energy of Canada Limited

Roger T. Hager, Vancouver,
Director, The Canadian
Fishing Company Limited

Alex D. Hamilton, Montréal,
President and
Chief Executive Officer,
Domtar Inc.

J. G. Kirkpatrick, Q.C., Montréal,
Senior Partner in the
legal firm of Ogilvy, Renault

Camille Lacroix, St. Romuald, Québec,
Chairman of the Board
Compagnie Matapédia Limitée

Yves Pratte, Q.C., Montréal,
Partner in the legal
firm of Courtois,
Clarkson, Parsons & Tétrault

J. H. Robertson, Montréal,
Executive Vice-President,
Domtar Inc.

Arthur Ross, New York,
Vice Chairman and
Managing Director,
Central National Corporation

Lorne C. Webster, Montréal,
Chairman of the Board and
Chief Executive Officer,
Groupe Prenor Ltée

Executive Management and Compensation Committee

H. Roy Crabtree, Chairman
Alex E. Barron
Alex D. Hamilton
Lorne C. Webster

Vice-President — Finance & Corporate Development
D. J. Speirs

Vice-President — Research & Environmental Technology
S. S. Danyluk

Vice-President — Engineering
W. B. Henderson

Vice-President — Administration
G. M. Drodge

Controller
T. B. Nutter

Treasurer
F. E. Hertha

Assistant Treasurer
M. Patrontasch

Construction Materials Group
President
N. B. Dephoure

Gypsum Products
Vice-President & General Manager
P. T. Sinclair

ARBORITE® Products
Vice-President & General Manager
V. N. Desaulniers

Masonry Products
General Manager
J. M. Cooke

Insulation Products
General Manager
J. D. Kittredge

Roofing & Fibre Products
Vice-President & General Manager
P. G. Levasseur

Sales
Vice-President
V. Hellyer

Chemicals Group
President
W. D. Davidson

CDC® Division
Vice-President & General Manager
K. A. McKeeman

SIFTO® Salt Division
Vice-President & General Manager
J. L. Morgan

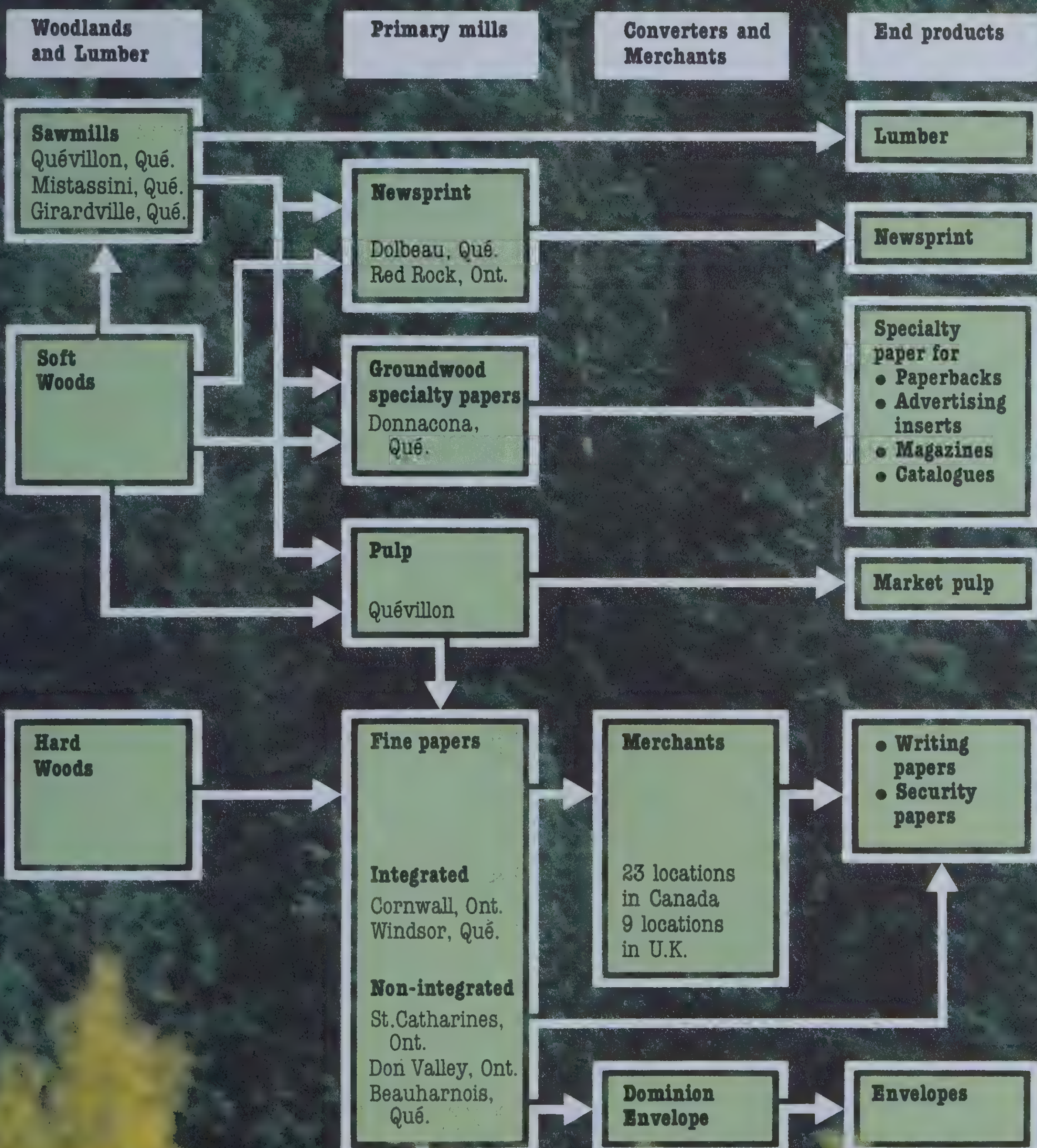
Lime Division
Vice-President & General Manager
R. W. Fugler

Wood Preserving Division
Vice-President & General Manager
H. J. Parsneau

Fine Papers • Envelopes • Newsprint and Groundwood Specialties • Pulp • Woodlands and Lumber

One of Canada's major integrated pulp and paper companies...

Largest supplier of fine papers in Canada and major supplier of groundwood specialty papers in North America



Five Year Review
Supplementary Segmented Information

(millions of Canadian dollars)

	% of Domtar Total	1980	1979	1978	1977	1976
Trade sales:*						
Fine papers and envelopes	**27.1**	**$ 449.3**	$ 421.1	$ 327.8	$ 271.3	$ 203.8
Newsprint and groundwood specialties	**13.0**	**215.0**	181.7	160.8	122.0	115.3
Pulp	**5.1**	**84.1**	70.1	59.2	62.6	55.3
Woodlands and lumber	**2.4**	**38.8**	39.6	37.8	18.2	6.0
Consolidated trade sales	**47.6**	**787.2**	712.5	585.6	474.1	380.4
Inter-segment sales		**15.7**	14.7	6.6	9.2	8.4
		$ 802.9	$ 727.2	$ 592.2	$ 483.3	$ 388.8
Operating profit:*						
Fine papers and envelopes	**25.1**	**$ 43.5**	$ 45.0	$ 22.4	$ 5.6	$ (7.5)
Newsprint and groundwood specialties	**21.7**	**37.5**	33.9	24.6	5.1	(0.6)
Pulp	**10.1**	**17.5**	17.9	(0.7)	2.8	0.9
Woodlands and lumber	**(4.2)**	**(7.3)**	(1.3)	(0.2)	(2.2)	(3.5)
	52.7	**$ 91.2**	$ 95.5	$ 46.1	$ 11.3	$ (10.7)
Net operating assets:*						
Fine papers and envelopes	**15.1**	**$ 146.8**	$ 143.2	$ 136.3	$ 125.5	$ 116.3
Newsprint and groundwood specialties	**7.7**	**74.7**	66.9	62.0	70.6	70.2
Pulp	**8.0**	**78.0**	69.2	67.2	79.2	79.1
Woodlands and lumber	**4.1**	**40.0**	40.8	36.9	42.4	30.6
	34.9	**$ 339.5**	$ 320.1	$ 302.4	$ 317.7	$ 296.2
Return on average net operating assets:						
Fine papers and envelopes		**30.0%**	32.2%	17.1%	4.6%	(6.6)%
Newsprint and groundwood specialties		**53.0%**	52.6%	37.1%	7.2%	(0.8)%
Pulp		**23.8%**	26.2%	(0.9)%	3.5%	1.2%
Woodlands and lumber		**(18.1)%**	(3.3)%	(0.5)%	(6.0)%	(12.7)%
Total Group		**27.7%**	30.7%	14.9%	3.7%	(3.7)%

*See definitions on page 39

Domtar Pulp & Paper Products

Overall Group

■ In 1980, the North American economy suffered a sharp setback in the first half followed by very slow recovery. By year end, the U.S. GNP was still below the levels experienced in the fourth quarter of 1979. No growth in the demand for paper coupled with increases in North American capacity resulted in lower average operating rates for the North American paper industry. A 20% plus decline in housing starts in the United States led to severely depressed lumber markets.

■ Increased industry shipments to offshore markets partially offset the lack of growth in North American demand.

■ By year end, North American pulp and newsprint inventories had increased from the generally low levels at the beginning of 1980. With these increases, inventories are not above normal levels.

■ Strikes at several eastern Canadian newsprint and fine paper mills during the year resulted in other Canadian pulp and paper mills operating at close to full capacity throughout the year.

■ Sales for the Pulp and Paper Products Group at $803 million increased by 10% over 1979. Strikes at its fine paper mills in Cornwall, St. Catharines and Don Valley, Ontario and its Québec sawmills in Mistassini and Lebel-sur-Quévillon, are estimated to have reduced sales by some 5%.

■ Exchange rates continued to favour export sales and to protect domestic sales from import competition.

■ Operating profit for the Group reached $91 million, some 5% below 1979. The decrease resulting mainly from the strikes at the Ontario fine paper and Québec lumber mills and from weak demand for lumber in the North American market more than offset improved margins on market pulp, fine papers, newsprint and groundwood specialty papers.

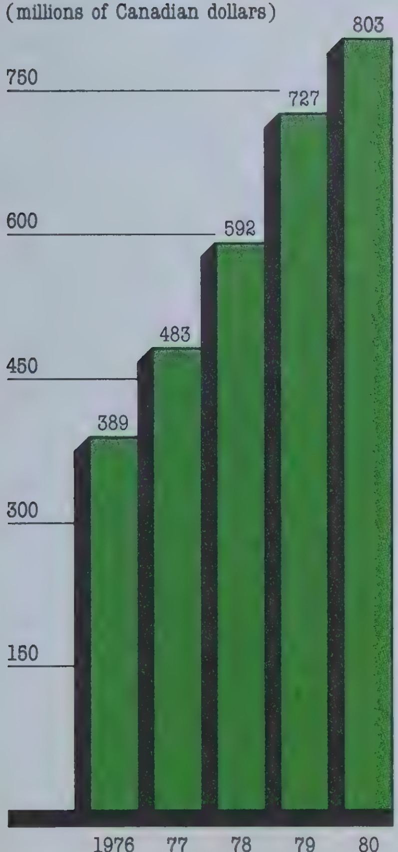
■ Return on average net operating assets declined from 31% in 1979 to 28% in 1980, as operating profit fell by 5% while average net operating assets required to generate these profits increased by 6%.

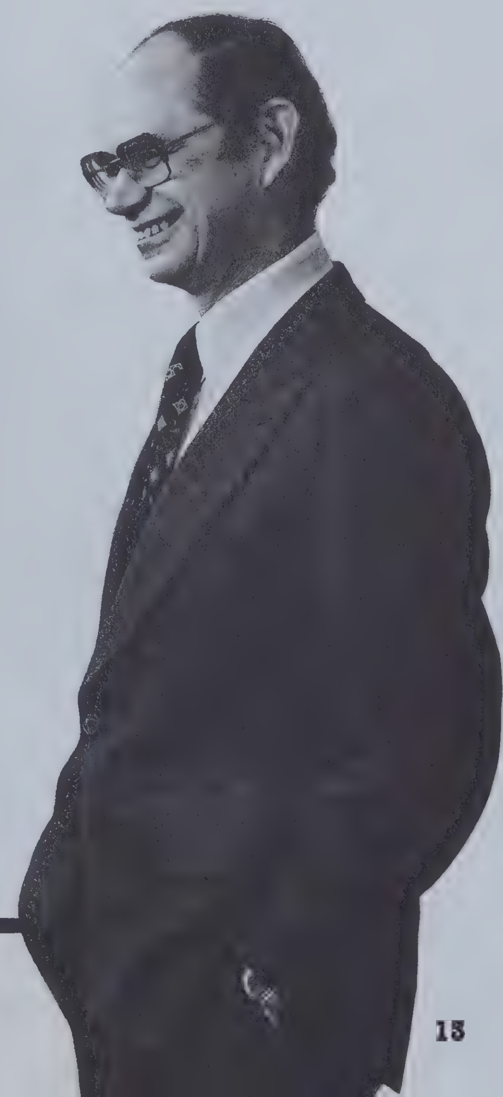
Forest Products

Woodlands

■ Domtar purchases approximately 44% of its wood fibre from independent suppliers. To guarantee a stable fibre supply for Quévillon and Donnacona, Québec, and Red Rock in Ontario, long-term chip purchase contracts were signed during 1980 with major suppliers.

Sales
(millions of Canadian dollars)





R.R. Pinard, President

Lumber

■ The weaknesses in lumber markets, which caused major price reductions in the fourth quarter of 1979, continued throughout 1980. High interest rates depressed the demand for lumber in North America. Production in North America was curtailed, particularly on the west coast. In addition, strikes in some large eastern lumber mills removed some supply from the market.

■ The investment programs started in 1979 to reduce labour costs and improve production efficiencies at Domtar's Mistassini and Girardville, Québec, lumber mills were completed and expected results achieved.

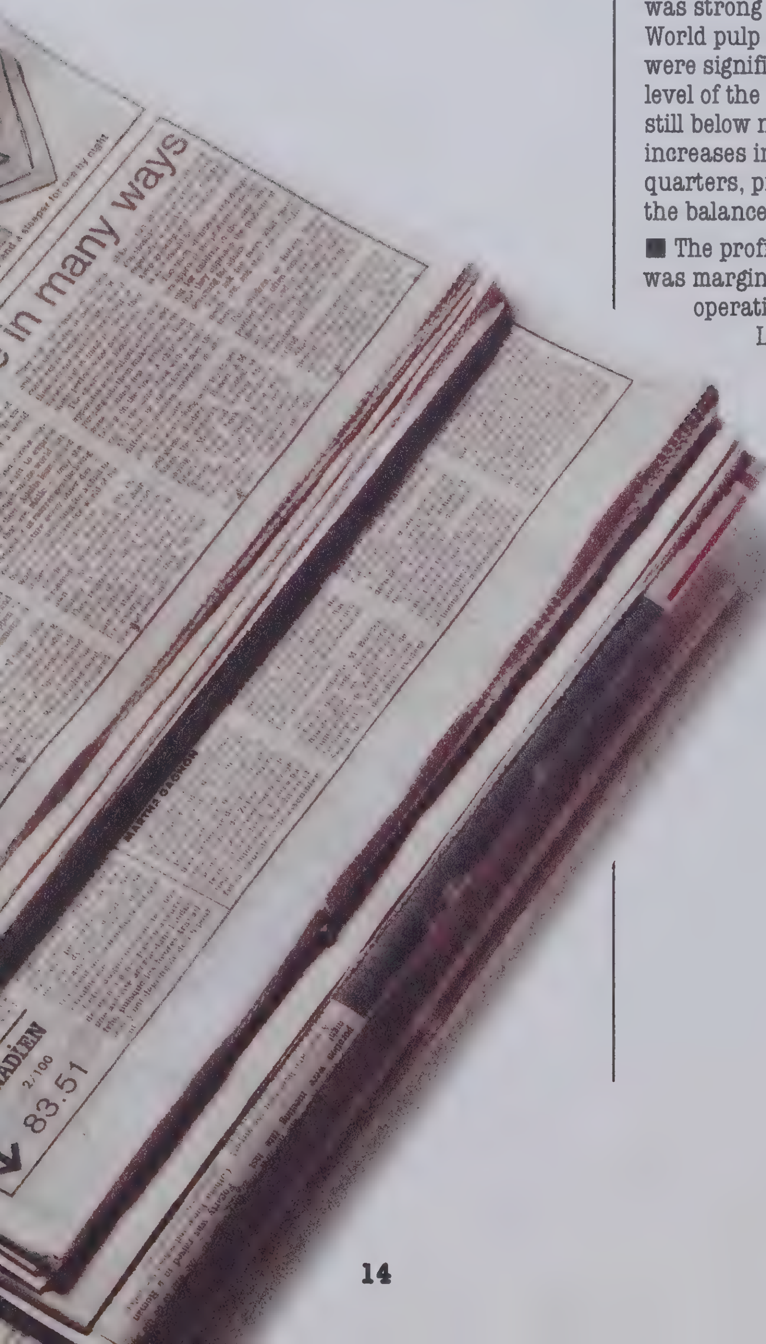
■ Lumber operations at Mistassini and Quévillon were closed by strikes in August and December respectively. The union's demands for wage settlements existing in many Canadian pulp and paper mills were considered by the company to be excessive for Domtar's lumber operations which must compete with independent lumber producers. These strikes resulted in some adjustment to normal wood supply patterns without adversely affecting the Group's production of pulp and paper.

■ In addition to losses resulting from these strikes, profit margins fell as weak markets prevented recovery of cost increases.

Pulp

■ World demand for market pulp was strong throughout the year. World pulp inventories at year end were significantly above the low level of the previous year end but still below normal levels. Following increases in the first and second quarters, prices remained firm for the balance of the year.

■ The profitability of the division was marginally below 1979, as operating problems at the Lebel-sur-Quévillon mill reduced productivity below 1979 levels. The strike at Domtar's fine paper mills had little impact on the profits of the Quévillon and Windsor, Québec pulp mills.



■ The construction of a 500-ton high density pulp storage tank at the Quévillon mill will be completed in January 1981. This is part of a continuing program to improve operating efficiencies. Other improvements planned for 1981 include a better chip handling system and liquor storage.

Newsprint and Groundwood Specialties

■ In 1980, newsprint consumption in the United States and Canada was below that in 1979. However, shipments of newsprint increased slightly due to increased offshore exports and some rebuilding of inventories to more normal levels.

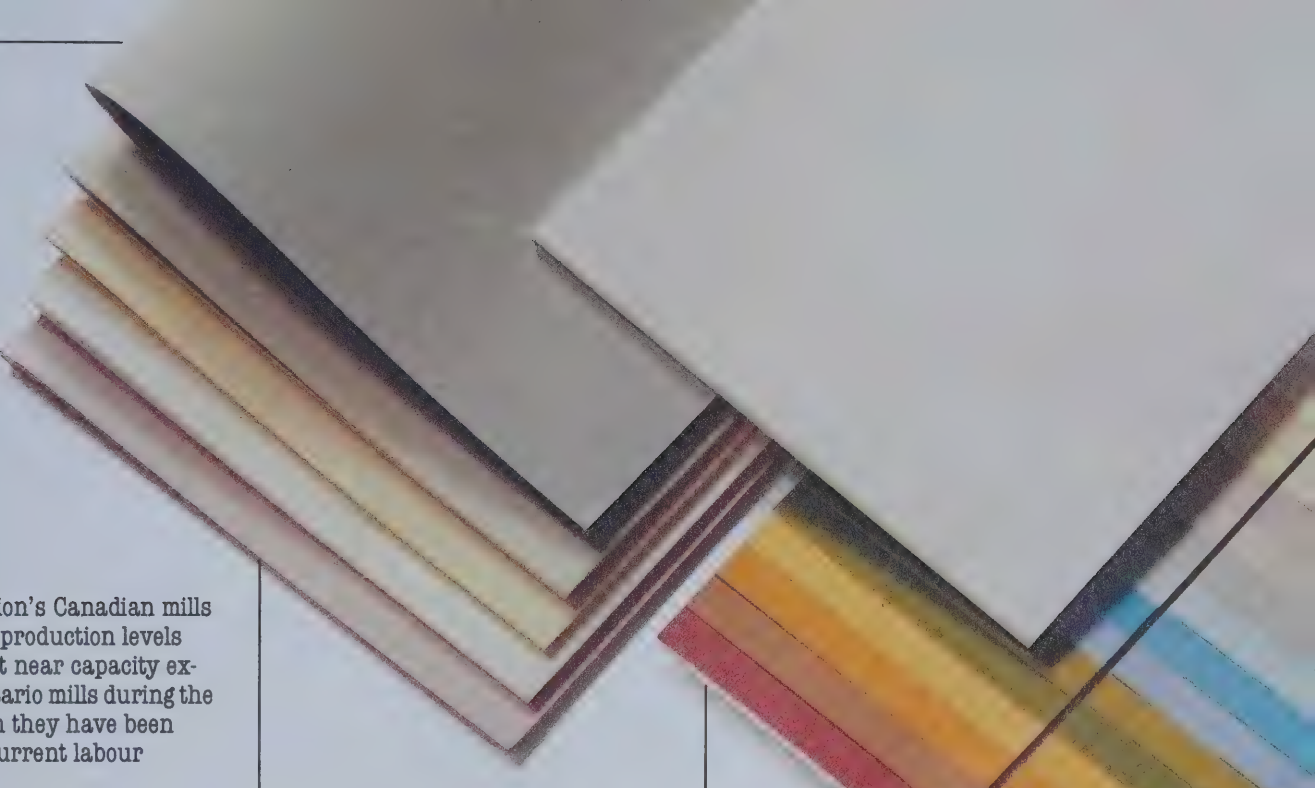
■ Demand for groundwood specialty papers continued strong.

■ Domtar's mills operated at capacity throughout 1980. Improved margins together with high operating rates, bolstered by a record production year at the mill at Dolbeau, Québec, resulted in improved profits.

■ An additional 150-ton per day refiner-mechanical pulping system was installed at the Donnacona mill for start up in February 1981 bringing capacity for this type of pulp to 330 tons per day. Plans to convert the mill to 100% refiner-mechanical pulp furnish will be completed in 1981.

Fine Papers and Envelopes

■ Notwithstanding the general economic slowdown, the demand for fine papers remained firm throughout the year. Sales amounted to \$449 million compared to \$421 million in 1979. The 1980 sales were reduced by the closing down of the Sunderland mill in England and the strikes in three Ontario fine paper mills. The operating profit declined from 1979 levels, with the costs resulting from the strike more than offsetting improved manufacturing margins.



■ All the division's Canadian mills exceeded 1979 production levels and operated at near capacity except for the Ontario mills during the period in which they have been closed by the current labour dispute.

■ The division successfully renewed labour agreements at all locations except at its three Ontario mills. The division is resisting the union's wage demands in an effort to obtain a level of increase more in line with its major direct competitors — fine paper mills in the United States.

■ Domtar has been able, in the last few years, to strengthen its competitive position relative to the mills in the United States. Continued improvements in cost competitiveness are essential to offset potential increased competition from mills in the United States following GATT tariff cuts and any appreciation of the Canadian dollar.

■ As part of the modernization program, a new fully automated cut-size sheeter and packaging line was installed at the Cornwall mill during the year. The equipment is the largest and most automated of its kind in North America.

■ The Canadian merchant group of the Fine Papers division, led by Buntin Reid and McFarlane Son & Hodgson, continued its sales growth; however, margins narrowed reflecting increased competition.

■ In the United Kingdom, the non-integrated fine paper mill at Sunderland experienced severe cost escalation and increased competition from imports which led to severe losses. Accordingly, on October 31, 1980, Domtar permanently closed this mill. The merchant group continued to be profitable.

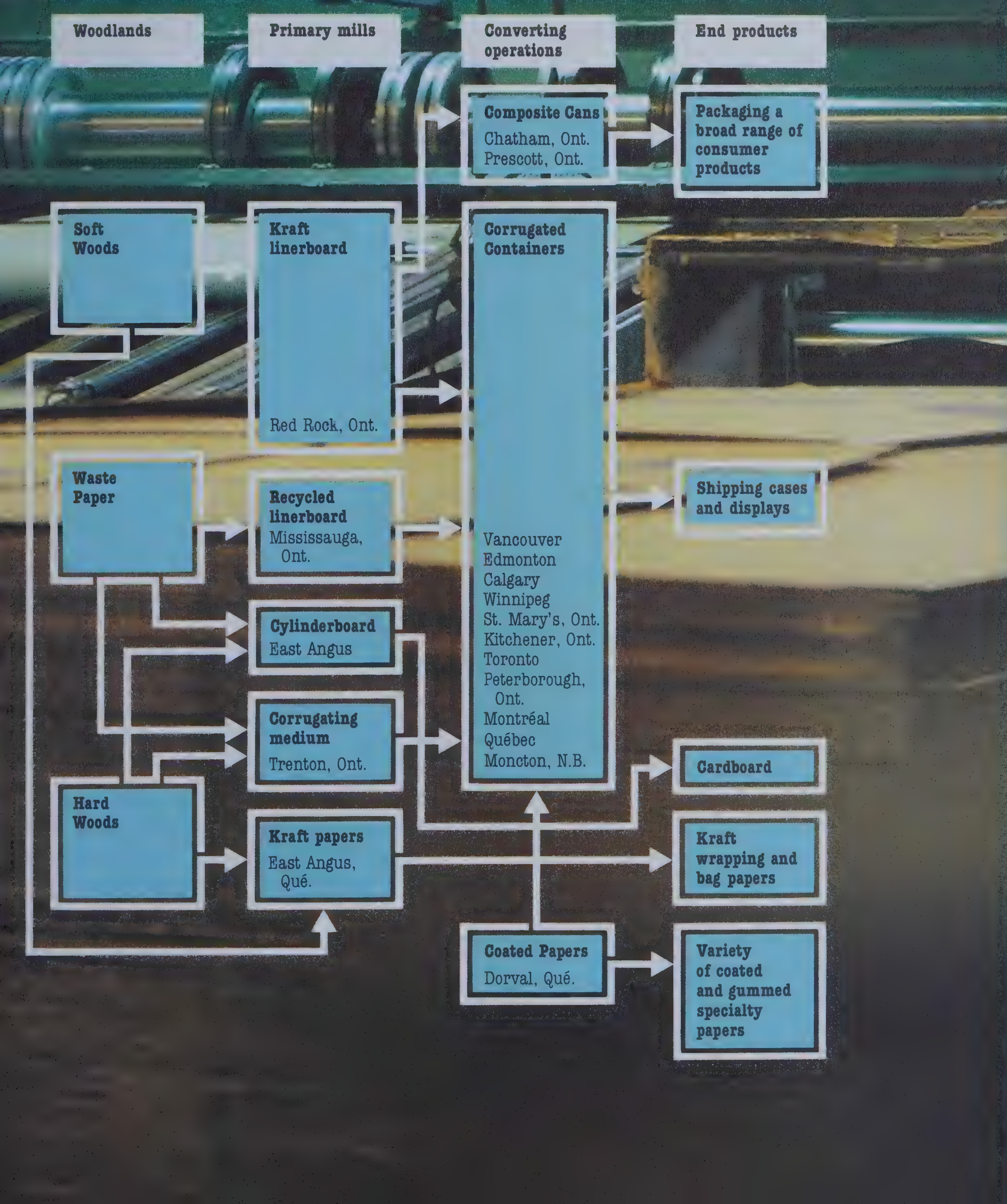
■ The envelope operation enjoyed a 13% growth in sales revenue. Profits increased slightly, with improved volume more than offsetting a small reduction in margins.

Pulp and Paper Production
(Short tons)

	1980	1979	1978	1977	1976
Newsprint and groundwood specialties	**421,390**	418,358	412,056	288,228	309,435
Fine and specialty papers	**343,714**	380,619	328,737	293,210	240,742
Market pulp	**177,897**	164,899	193,030	207,624	160,802

Corrugated Containers and Containerboard • Kraft Papers • Specialty Papers • Composite Cans

Canada's largest integrated national supplier of corrugated containers



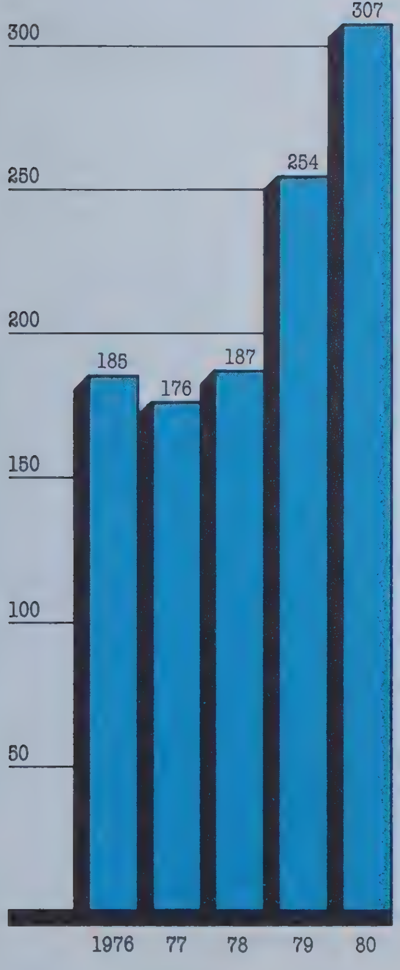
Five Year Review
Supplementary Segmented Information
(millions of Canadian dollars)

	1980 % of Domtar Total	1980	1979	1978	1977	1976
Trade sales:*						
Corrugated containers and containerboard	**13.2**	**$ 217.8**	$ 174.5	$ 120.8	$ 106.4	$ 102.9
Kraft papers	**3.0**	**49.3**	45.7	38.4	20.5	22.6
Composite cans	**1.2**	**20.0**	15.9	12.0	11.5	10.6
Specialty papers	**0.8**	**14.2**	13.5	13.0	11.5	11.4
Converted papers	**—**	**—**	—	—	22.2	33.9
Consolidated trade sales	**18.2**	**301.3**	249.6	184.2	172.1	181.4
Inter-segment sales		**5.4**	4.4	3.1	3.6	3.8
		$ 306.7	$ 254.0	$ 187.3	$ 175.7	$ 185.2
Operating profit:*						
Corrugated containers and containerboard	**14.3**	**$ 24.7**	$ 20.1	$ 13.1	$ 12.1	$ 10.6
Kraft papers	**2.8**	**4.9**	3.2	3.7	0.1	2.0
Composite cans	**1.1**	**1.9**	1.6	0.9	1.1	0.6
Specialty papers	**0.5**	**0.8**	0.8	0.7	1.0	1.1
Converted papers	**—**	**—**	—	—	(1.5)	(3.0)
	18.7	**$ 32.3**	$ 25.7	$ 18.4	$ 12.8	$ 11.3
Net operating assets:*						
Corrugated containers and containerboard	**13.6**	**$ 131.9**	$ 108.5	$ 75.5	$ 76.9	$ 78.9
Kraft papers	**1.4**	**13.2**	13.7	12.5	11.6	11.9
Composite cans	**0.6**	**6.1**	4.6	4.4	3.5	3.2
Specialty papers	**0.6**	**6.3**	7.0	6.1	6.1	5.8
Converted papers	**—**	**—**	—	—	0.1	12.0
	16.2	**$ 157.5**	$ 133.8	$ 98.5	$ 98.2	$ 111.8
Return on average net operating assets:						
Corrugated containers and containerboard		**20.5%**	21.8%	17.2%	15.5%	13.6%
Kraft papers		**36.4%**	24.4%	30.7%	0.1%	17.2%
Composite cans		**35.5%**	35.6%	22.8%	32.8%	17.1%
Specialty papers		**12.0%**	12.2%	11.5%	16.8%	19.0%
Converted papers		**—%**	—%	—%	—%	(27.2)%
Total Group		**22.2%**	22.1%	18.7%	12.2%	10.3%

*See definitions on page 39

Domtar Packaging

Sales
(millions of Canadian dollars)



Overall Group

■ Group sales increased by 21% to $307 million from the 1979 level of $254 million. Approximately 53% of the increase is attributed to sales from the two corrugated plants acquired in 1980 plus the sales for a full year from the facilities acquired in 1979 from Reed Ltd. Price increases in 1980 averaged 10%. Operating profit in 1980 increased by 26% to a record level of $32 million due to improved margins for corrugating medium, linerboard and kraft papers.

■ The purchase of two corrugated container plants in Vancouver and Edmonton strengthened Domtar's position as the largest national manufacturer of corrugated containers capable of servicing customers, coast to coast, from local plants.

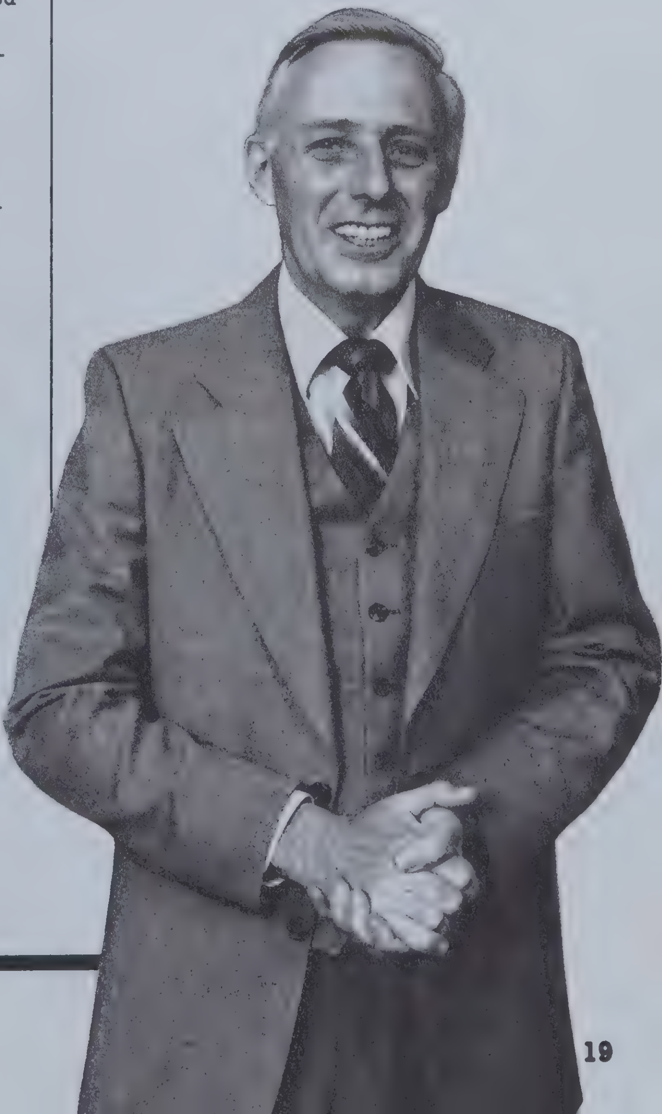
■ During 1980, the Group negotiated labour agreements with its unionized employees at most of its plants with no significant disruption of operations.

■ The return on average net operating assets at 22.2% compared favourably with that of 1979. The rate was achieved despite expenditures for major capital projects, currently under construction, which are aimed at ensuring the long term viability of Domtar's integrated corrugated container and containerboard business.

Kraft Papers

■ Demand for kraft papers in Canada declined by 14% compared to 1979 due mainly to poor economic conditions; Domtar's volume decreased 7% but due to the withdrawal of a key competitor from the business, improved margins and the ongoing program to rationalize the product line, Domtar in 1980 has been able to generate an acceptable return on its investment.

■ The long term prospects of maintaining an acceptable return on the mill at East Angus, Québec are uncertain due to a shrinking market, uncertainty of wood supply, the reduction of import tariffs and the significant expenditures required to comply with pollution control regulations. Nevertheless, Domtar continues to invest in projects with adequate and timely returns, such as the hogged fuel burning boiler now under construction.



J.H. Smith, President

Corrugated Containers and Containerboard

■ Demand for corrugated containers declined in 1980 due to weak economic conditions. However, demand for containerboard continued strong as the division diverted linerboard from the sluggish domestic market to exploit export opportunities.

■ Sales increased by 25% due to the additional volumes from plants acquired in 1979 and 1980, and to general price increases. Operating profit was ahead by 23% due mainly to improved margins on corrugating medium and linerboard. The increase in the net operating assets can be attributed to the assets acquired from Belkin Packaging Limited and projects now under construction, the largest of which is the recovery furnace at Red Rock, Ontario.

■ The addition of the former Belkin Packaging Limited plants in Vancouver and Edmonton increased Domtar's ability to service Western Canadian customers. The purchase was supported by a long term supply contract for linerboard and corrugating medium.

■ As part of a continuing cost reduction and modernization program, the division is proceeding with improvements to the corrugated container plant at Winnipeg, Manitoba and is embarking on an expansion of its newly acquired corrugated container plant in Vancouver, British Columbia.

■ Domtar continues its efforts to optimize the return from its waste paper recycling operation. In 1980, the Group established a collecting and sorting depot in Windsor, Ontario to harvest local waste fibres. A plant to process used corrugated containers as waste fibre is planned for construction in Toronto. Approximately 50% of the waste fibre processed by the division is sold to third parties.

Composite Cans — Domtar Sonoco Containers

■ There are four major product applications:

- juice concentrates
- automotive oils
- household cleaners
- powdered drinks.

■ Sales increased 26% over 1979 due mainly to increased volumes to all markets particularly juice concentrates. Operating profits increased 19% as costs rose faster than prices.

■ New production records were set at both the Prescott and Chatham plants.

■ The division's recent investments in the juice concentrate business had a favourable impact on results in 1980.

■ The division continued to emphasize product development and this will be pursued at an increased rate in 1981. The technical expertise of Sonoco International, Inc., which holds a 49% interest in Domtar Sonoco Containers Inc., is being extensively utilized.

Specialty Papers

■ This business consists of five product lines:

- Plain and reinforced gummed tapes
- Vapowrap
- Photocopy paper
- Electrostatic offset plates
- Other coated papers

■ Although sales increased by 5% over 1979, cost pressures offset any price increases. Sales of plain and reinforced gummed tapes to export markets increased; however, sales of Vapowrap were down due to strikes at several customer locations.

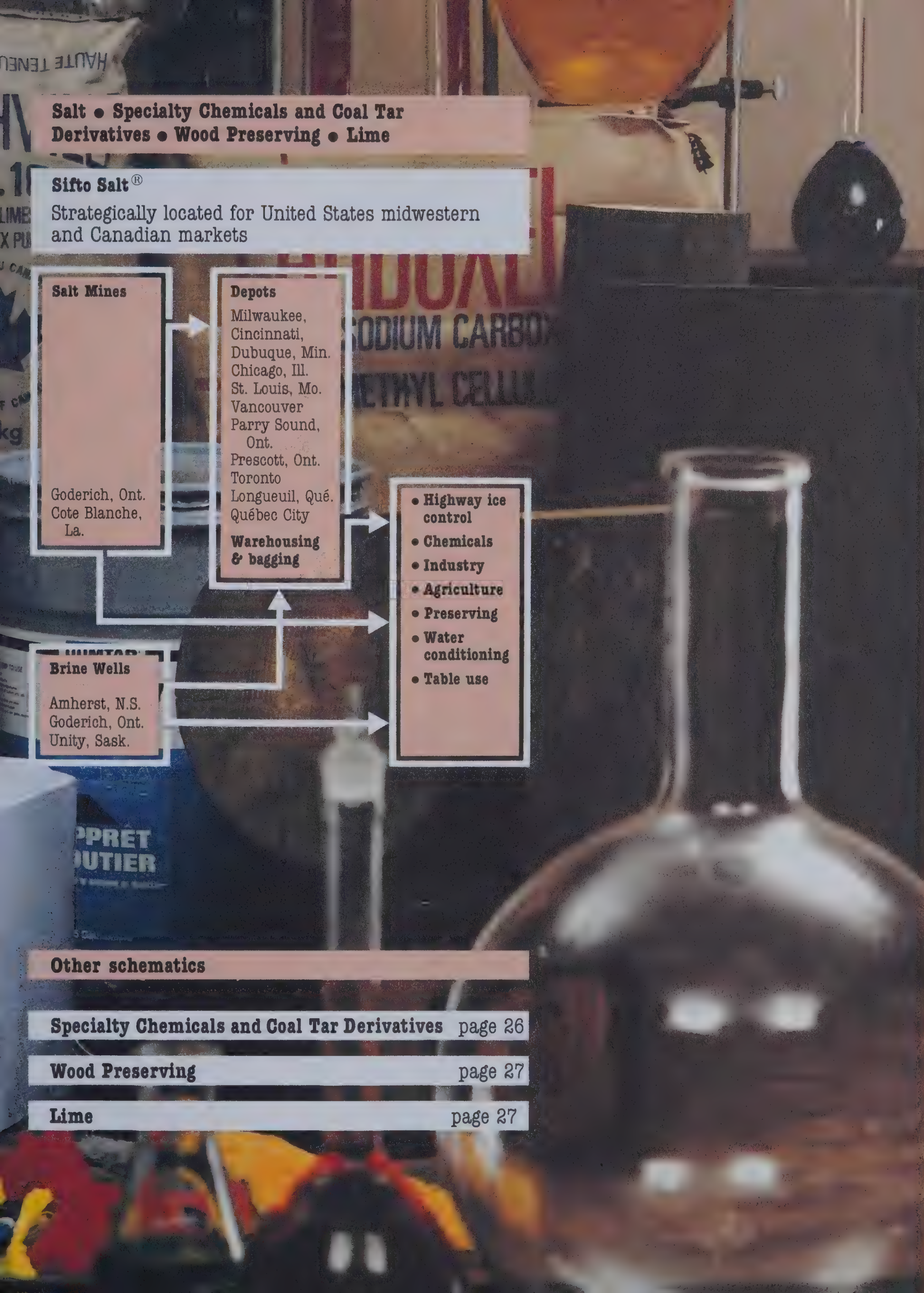
■ Exports accounted for approximately 25% of sales in 1980.

Paper Production

(Short tons)

	1980	1979	1978	1977	1976
Kraft paper and containerboard	**514,553**	526,286	433,260	383,108	354,213

25 kg
shellroc
CHAUX VIVE
DE CALCIUM)
20 kg
SEL
20 kg
sifto
SALT
KEEP
ICE MELTING SALT
TRUNK...
MEMBER
sifto
DE-ICING
SALT
sifto
gros
sel
2 kg



Salt • Specialty Chemicals and Coal Tar Derivatives • Wood Preserving • Lime

Sifto Salt®

Strategically located for United States midwestern and Canadian markets

Salt Mines

Goderich, Ont.
Cote Blanche, La.

Depots

Milwaukee,
Cincinnati,
Dubuque, Min.
Chicago, Ill.
St. Louis, Mo.
Vancouver
Parry Sound, Ont.
Prescott, Ont.
Toronto
Longueuil, Qué.
Québec City

Warehousing & bagging

Brine Wells

Amherst, N.S.
Goderich, Ont.
Unity, Sask.

- **Highway ice control**
- **Chemicals**
- **Industry**
- **Agriculture**
- **Preserving**
- **Water conditioning**
- **Table use**

Other schematics

Specialty Chemicals and Coal Tar Derivatives page 26

Wood Preserving page 27

Lime page 27

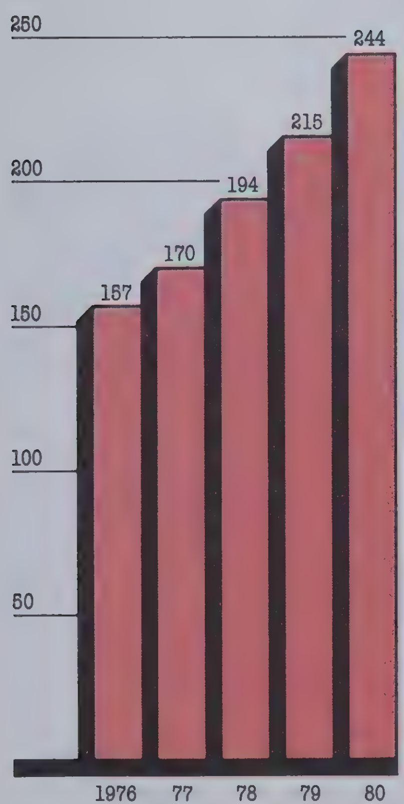
Five Year Review
Supplementary Segmented Information
(millions of Canadian dollars)

	1980 % of Domtar Total	1980	1979	1978	1977	1976
Trade sales:*						
Sifto® salt	**4.9**	**$ 81.4**	$ 73.7	$ 66.8	$ 55.8	$ 51.9
Specialty chemicals and coal tar derivatives	**4.0**	**66.1**	47.5	42.4	34.2	27.6
Wood preserving	**3.2**	**52.7**	47.2	42.8	44.5	44.7
Lime	**2.4**	**40.0**	43.5	38.1	31.4	26.4
Other	—	—	—	—	—	2.4
Consolidated trade sales	**14.5**	**240.2**	211.9	190.1	165.9	153.0
Inter-segment sales		**3.4**	3.2	4.1	3.9	3.7
		$ 243.6	$ 215.1	$ 194.2	$ 169.8	$ 156.7
Operating profit:*						
Sifto® salt	**11.1**	**$ 19.2**	$ 15.6	$ 13.1	$ 8.9	$ 8.9
Specialty chemicals and coal tar derivatives	**5.6**	**9.6**	5.5	4.9	3.7	2.4
Wood preserving	**4.8**	**8.3**	5.7	4.8	5.5	4.2
Lime	**1.1**	**1.9**	4.1	3.5	2.7	1.9
Other	—	—	—	—	—	0.2
	22.6	**$ 39.0**	$ 30.9	$ 26.3	$ 20.8	$ 17.6
Net operating assets:*						
Sifto® salt	**5.6**	**54.6**	47.4	43.3	42.2	38.1
Specialty chemicals and coal tar derivatives	**1.6**	**15.9**	15.6	13.3	11.6	9.4
Wood preserving	**2.5**	**24.3**	21.4	19.8	18.8	22.1
Lime	**3.0**	**28.8**	26.5	24.2	21.7	13.7
	12.7	**$ 123.6**	$ 110.9	$ 100.6	$ 94.3	$ 83.3
Return on average net operating assets:						
Sifto® salt		**37.6%**	34.3%	30.6%	22.2%	23.0%
Specialty chemicals and coal tar derivatives		**61.0%**	38.1%	39.5%	35.2%	25.1%
Wood preserving		**36.3%**	27.7%	24.9%	26.9%	16.8%
Lime		**6.9%**	16.2%	15.3%	15.2%	14.7%
Total Group		**33.3%**	29.2%	27.0%	23.4%	19.9%

*See definitions on page 39

Domtar Chemicals Group

Sales
(millions of Canadian dollars)



Overall Group

■ Group sales totalled $244 million, a 13% increase over 1979. The CDC® and Wood Preserving divisions registered increased sales volumes while volumes declined in the Lime division. Price increases averaged 7% in 1980. Operating profit increased 26% due to the higher volumes in treated wood products and coal tar derivatives and better margins on salt, specialty chemicals and lime.

■ The Group's return on average net operating assets was at a record high — 33.3% — despite the difficulties in the Lime division. This rate reflects the steady improvement begun in 1976.

■ Effective in the first quarter of 1981, the CDC® division has been renamed the Organic Chemicals division.

Sifto® Salt

■ The consumption of ice control salt was at its lowest level in recent years due to the unusually mild 1979/80 winter. Consequently there was a higher than normal level of inventory carried over into the 1980/81 winter season. Operating rates at the Goderich and Cote Blanche mines were therefore lower than in the previous years.

■ Chemical and other industrial salt consumption was also lower than normal due to the poor economic conditions in the United States.

■ The division continued its program to upgrade its product mix to improve profitability.

■ Sales increased 10% mainly due to higher prices. Operating profits increased 23% as better margins prevailed on ice control salt in certain markets.

■ The major long-term objective of the division is to position itself to be a major participant in the salt markets in North America. The division is, therefore, expanding the Goderich mine, improving the operating reliability of the Cote Blanche mine and installing a processing plant in Chicago and warehouse facilities in Chicago, Dubuque and East St. Louis.

W.D. Davidson, President

Specialty Chemicals and Coal Tar Derivatives — CDC® Division

■ Sales increased 39% over 1979. Approximately 30% of the increase results from demand in 1980 not being affected as in 1979 by prolonged strikes at customer locations. Aromatic oils were exported to new markets. Price increases reflected the continued rise in material costs.

■ Operating profit increased 75% due to additional volumes and increased margins. Net operating assets were held at 1979 levels.

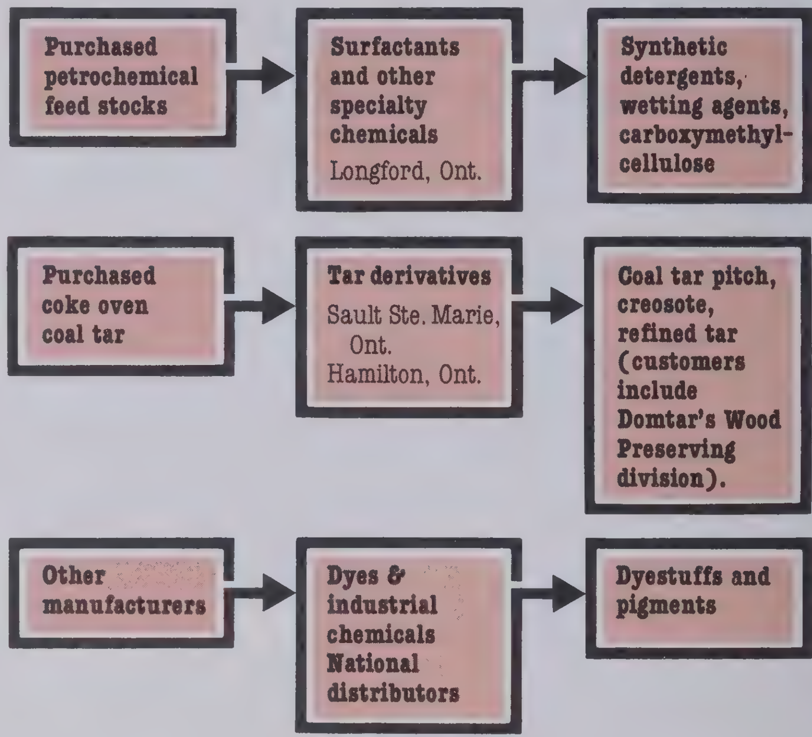
■ The division reopened its plant in Sault Ste. Marie, Ontario in May when an adequate supply of acceptable quality coal tar became available.

■ The addition of a new process kettle at Longford Mills, Ontario, to be completed in the second quarter of 1981, will increase capacity 100% and enable the division to pursue its goals in the surfactant business.

■ The division's long-term goal is, through new product development, to expand its market share in Canada and the United States and to explore suitable offshore opportunities. In addition, the division is actively pursuing an acquisition program in the broad field of organic chemicals in North America.

Specialty Chemicals and Coal Tar Derivatives

Canada's largest seller of surfactants and coal tar derivatives



Wood Preserving

■ Sales were 12% above 1979 levels. Volume was higher for all product categories but mainly for railway ties. Operating profit was substantially above the 1979 level due to increased volumes and lower wood costs offset by higher maintenance costs.

■ Progress continued to be made in exporting products to the Middle East, Africa and South America.

■ Due to depressed lumber markets, the supply of raw materials at reasonable prices was more than adequate. At year-end, inventories of poles were greater than they had been for several years.

■ The division's ongoing research and development program was concentrated in the search for an improved preservative system.

Wood Preserving

The major Canadian producer of treated railroad ties

Purchased wood → **Wood Preserving Plants**

Tar derivatives Hamilton, Ont. → **Wood Preserving Plants**

Preservatives → **Wood Preserving Plants**

Wood Preserving Plants
New Westminster, B.C.
Prince George, B.C.
Cochrane, Alta.
Edmonton, Alta.
Trenton, Ont.
Delson, Qué.
Newcastle, N.B.
Truro, N.S.

→ **Railway ties, utility poles, timber for building and marine construction**

Lime

■ Sales were 9% less than in 1979. Volume was off 25% due to the lower demand from the steel industry, mainly in the United States. Prices were higher. Operating profit was substantially below the 1979 level.

■ In January 1980, the division closed its plant in Hespeler, Ontario due to the low profitability of the product line derived from those facilities.

■ In January 1981, the division sold its lime facilities in Tacoma, Washington, so as to concentrate on developing its markets in eastern North America.

■ Long-term market projections are encouraging. The Bellefonte, Pennsylvania plant and mine are being expanded to meet anticipated demand.

■ The division is actively monitoring and promoting the use of lime in waste and water treatment and in the various processes to prevent "acid rain" by removing sulphur dioxide from stack gas emissions.

■ In order to minimize the cost of energy used in the production process, the division continues, wherever feasible, to blend lower cost solid fuels with petroleum products.

Lime

Canada's largest lime producer

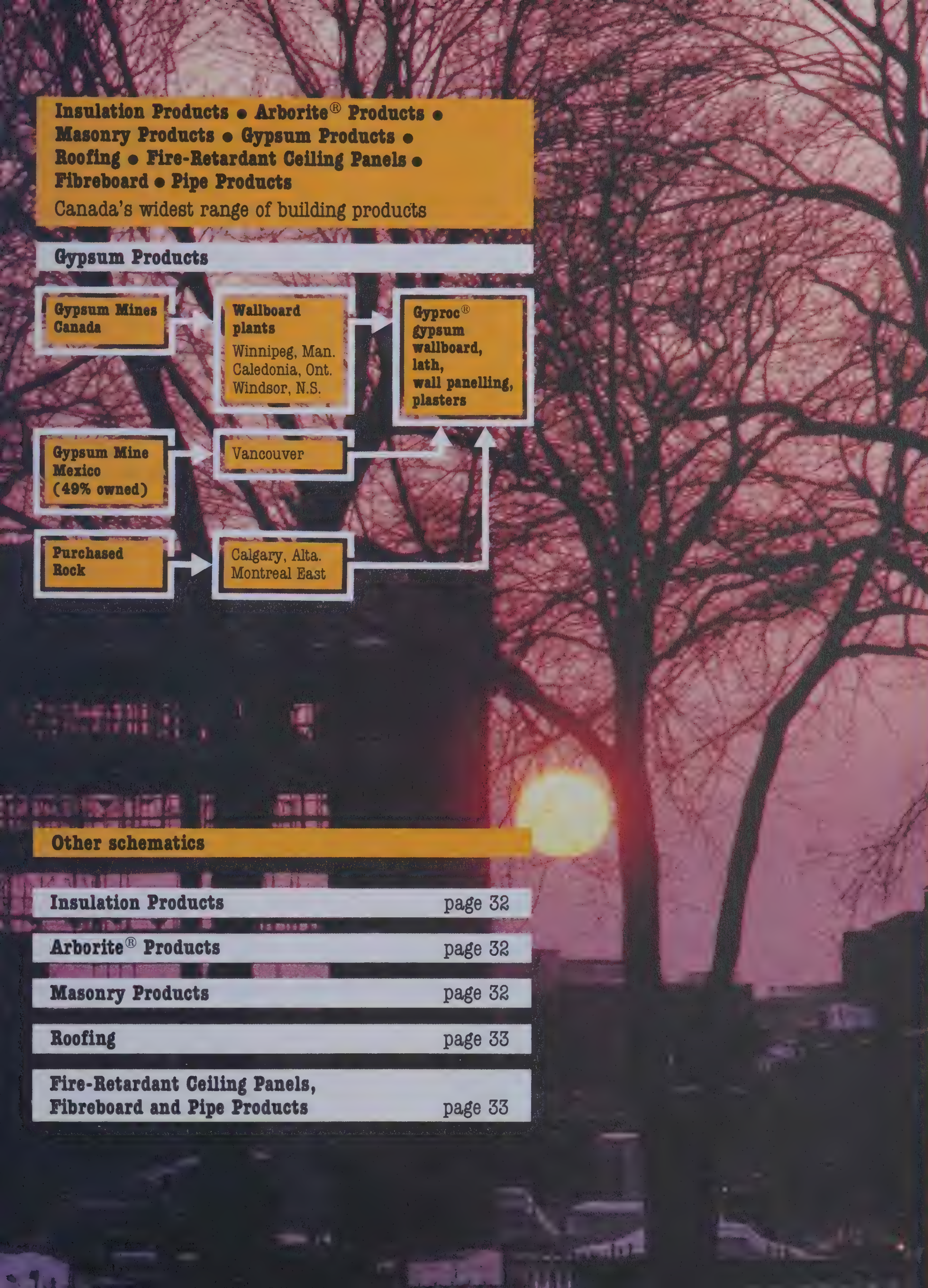
Lime quarries
Beachville, Ont.
Bellefonte, Pa.
Joliette, Qué.

↓

Kilns
Beachville
Bellefonte
Joliette

↓

Limestone, hydrated lime and quicklime for the steel, paper and glass industries



Insulation Products • Arborite® Products • Masonry Products • Gypsum Products • Roofing • Fire-Retardant Ceiling Panels • Fibreboard • Pipe Products

Canada's widest range of building products

Gypsum Products

Gypsum Mines Canada → **Wallboard plants** Winnipeg, Man. Caledonia, Ont. Windsor, N.S. → **Gyproc® gypsum wallboard, lath, wall panelling, plasters**

Gypsum Mine Mexico (49% owned) → Vancouver → **Gyproc® gypsum wallboard, lath, wall panelling, plasters**

Purchased Rock → Calgary, Alta. Montreal East → **Gyproc® gypsum wallboard, lath, wall panelling, plasters**

Other schematics

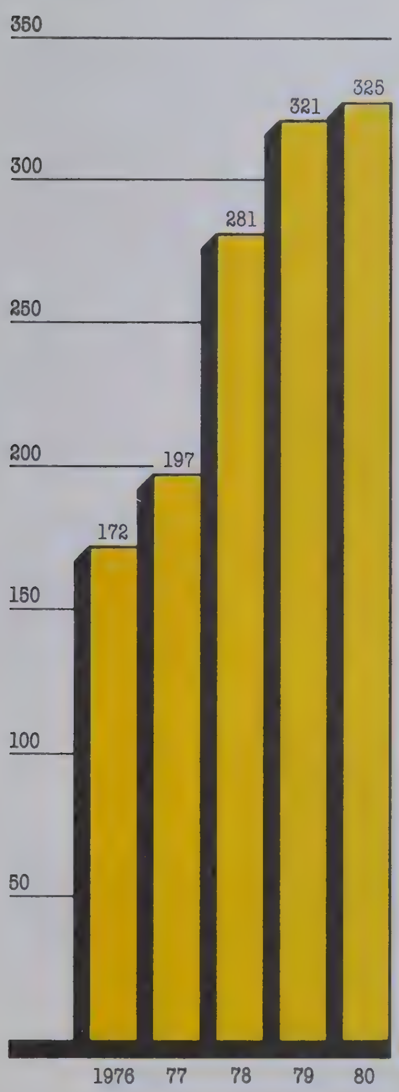
Five Year Review
Supplementary Segmented Information
(millions of Canadian dollars)

	1980 % of Domtar Total	1980	1979	1978	1977	1976
Trade sales:*						
Gypsum — Canada	3.6	$ 60.3	$ 62.4	$ 60.0	$ 46.3	$ 38.1
— Domtar Gypsum America	3.9	64.5	76.4	49.8	—	—
Total Gypsum	7.5	124.8	138.8	109.8	46.3	38.1
Arborite®, Fiberglas(*) insulation and masonry	6.9	114.4	111.1	104.2	89.0	72.1
Roofing, fibre and ceiling tiles	5.1	84.7	71.3	67.0	62.1	61.8
Consolidated trade sales	19.5	323.9	321.2	281.0	197.4	172.0
Inter-segment sales		0.9	—	—	—	—
		$ 324.8	$ 321.2	$ 281.0	$ 197.4	$ 172.0
Operating profit:*						
Gypsum — Canada	1.1	$ 2.0	$ 8.2	$ 10.0	$ 5.9	$ 3.1
— Domtar Gypsum America	1.7	2.9	18.0	13.7	—	—
Total Gypsum	2.8	4.9	26.2	23.7	5.9	3.1
Arborite®, Fiberglas(*) insulation and masonry	2.4	4.1	5.7	1.9	0.2	0.6
Roofing, fibre and ceiling tiles	1.6	2.8	1.2	0.7	5.1	7.3
	6.8	$ 11.8	$ 33.1	$ 26.3	$ 11.2	$ 11.0
Net operating assets:*						
Gypsum — Canada	3.7	$ 36.3	$ 31.9	$ 18.4	$ 9.3	$ 8.9
— Domtar Gypsum America	7.0	67.6	35.9	33.6	—	—
Total Gypsum	10.7	103.9	67.8	52.0	9.3	8.9
Arborite®, Fiberglas(*) insulation and masonry	4.0	39.0	44.7	42.5	41.0	41.0
Roofing, fibre and ceiling tiles	2.4	23.5	20.1	17.3	10.9	9.4
	17.1	$ 166.4	$ 132.6	$ 111.8	$ 61.2	$ 59.3
Return on average net operating assets:						
Gypsum — Canada		5.9%	32.6%	72.2%	64.8%	31.1%
— Domtar Gypsum America		5.6%	51.8%	41.0%	—%	—%
Total Gypsum		5.7%	43.7%	50.2%	64.8%	31.1%
Arborite®, Fiberglas(*) insulation and masonry		9.8%	13.1%	4.6%	0.5%	1.6%
Roofing, fibre and ceiling tiles		12.8%	6.4%	5.0%	50.2%	73.0%
Total Group		7.9%	27.1%	30.4%	18.6%	19.1%

*See definitions on page 39

Domtar Construction Materials

Sales
(millions of Canadian dollars)



Overall Group

■ Domtar's construction materials business is managed as two separate operations. N.B. Dephoure is President of Domtar Construction Materials Group in Canada, and W.R. Lawson is President of the Domtar Gypsum America Inc. operations which are based in California.

■ In spite of the market slowdown in residential construction activity in North America, sales of the combined Group of $325 million were slightly above the 1979 level. Operating profit of $12 million was significantly lower than the $33 million earned last year primarily due to lower volumes and margins. The volume shortfall clearly reflects the impact of high interest rates in 1980 on the North American construction industry.

■ The return on average net operating assets at 7.9% showed a sharp decline from the 27.1% return in 1979. This resulted from the combined effect of the lower level of operating profit and a large increase in the Group's asset base in the United States during the year due to expenditures on major capital projects.

■ Housing starts in Canada fell to 158,000 units, a drop of 19% from the 1979 level. With occupancy rates high and inventories of new homes almost exhausted, a return to a more acceptable level of interest rates is likely to trigger an increase in housing starts. This should have an almost immediate impact on the Group, as inventories in building material distribution channels are depleted. In addition, the demand deferred during the current cycle of high interest rates remains to be satisfied.

■ At the beginning of 1980, the Group's Canadian operations were restructured to segregate profit responsibility by major product lines.

N.B. Dephoure, President

Gypsum Operations — Canada

■ Although housing starts in North America declined by more than 20%, Domtar's Canadian shipments of gypsumboard fell by only 7%. This resulted from the carryover of a high level of activity from 1979, a major strike at a competitor's plant in Eastern Canada and increased penetration of offshore markets. Shipments into the United States were 20% below their 1979 level.

■ The effect of the reduced shipments, intense price competition and costs incurred in the start-up of the new gypsum wallboard plant in Caledonia, Ontario combined to limit profits to a level significantly below 1979. The new Caledonia plant is currently operating at 80% of capacity.

Arborite® Products

■ Sales of the particleboard and Cladboard® decorative laminate plant in Huntsville, Ontario, increased by 22% over the 1979 total, due to improved productivity and increased market penetration of Cladboard® products.

■ Arborite® decorative laminates achieved a significant increase in profits as a result of increased market penetration and cost reduction. Increased shipments to offshore markets and the United States contributed to the increased volume, with good prospects for further growth. In addition, there was some improvement in market share in Canada.

■ Arborite® industrial laminate profits were marginally lower than in 1979, due for the most part to the strike at the Corporation's fine paper mill at St. Catharines, which is the sole manufacturer of the thermally upgraded paper used in certain products.

■ Late in 1980, the Corporation sold its 26% investment in Consoweld Corporation, a United States company operating in the decorative laminate industry, to Consolidated Papers Inc.

Fiberglas(*) Insulation

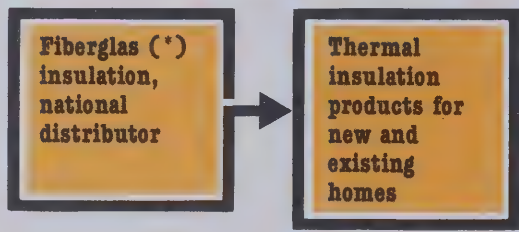
■ Sales volume declined by approximately 10% in the year due to the 19% drop in housing starts. This was only partly offset by increased demand for insulation used in existing buildings to conserve energy.

Masonry Products

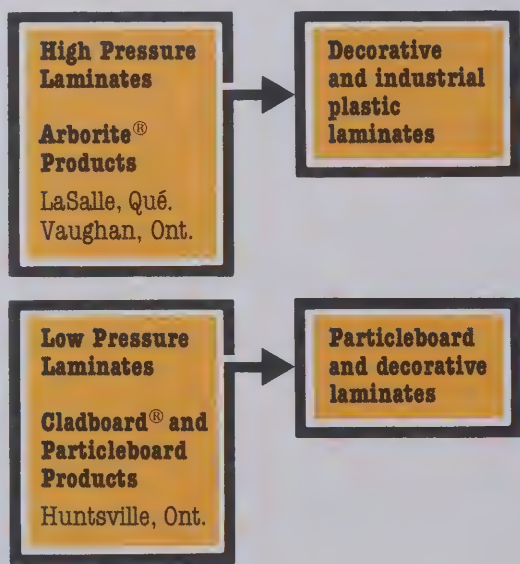
■ Operating profit was seriously affected by the major reduction in demand for new housing compared to 1979, with industry shipments down 13% from the prior year.

■ A cost reduction program in operation throughout the year was effective in preventing greater shortfalls of profit due to lower volumes.

Insulation Products



Arborite® Products



Masonry Products

Roofing, Fibre and Ceiling Tiles

■ Financial results were improved due to a good re-roofing market and the absence of strikes such as the one which closed the Burnaby, British Columbia roofing plant for five months in 1979. The strike and subsequent closure of a competitor's plant also contributed to a strong performance in the Pacific region.

■ A significant increase in ceiling tile market penetration was achieved in 1980. This, coupled with cost reductions and productivity increases, resulted in improved performance.

■ Significant progress was made during the year in eliminating the deficiencies in process and mechanical equipment at the Cornwall fire-retardant ceiling panel plant.

Roofing

Roofing Felt Plant
Thorold, Ont.
→

Other suppliers
→

Roofing Plant
Brantford, Ont.
Burnaby, B.C.
Lachine, Qué.
Lloydminster, Alta.
→

Asphalt shingles, roll roofing and siding

Fire-Retardant Ceiling Panels, Fibreboard and Pipe Products

Ceiling Panel Plant
Cornwall, Ont.
→ **Fire-retardant ceiling panels**

Fibreboard Plant
Donnacona, Qué.
→ **Roof sheathing, panel board, ceiling tiles, grid panels**

Plastic Conduit Plant
Montréal
→ **Plastic conduit**

Domtar Gypsum America

■ After achieving excellent results since being acquired early in 1978, this operation, which serves the West Coast of the United States, was affected by the depressed level of housing and commercial building activity throughout 1980. Shipments for the year were off 29% from the previous year's level with a severe impact on costs and profits.

■ Capacity increases and cost reduction programs, designed to improve the performance and efficiency of the acquired facilities, have been completed at the San Francisco and Los Angeles wallboard plants in 1980.

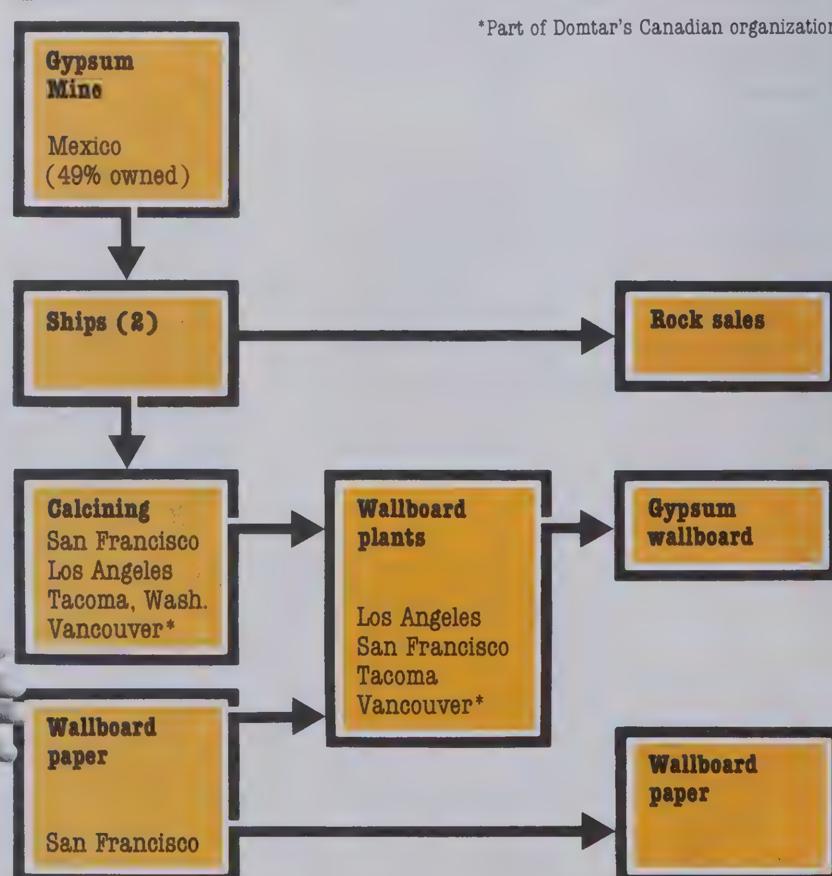
■ Construction of a third wallboard plant at Tacoma, Washington is well advanced, with start-up planned for late 1981.

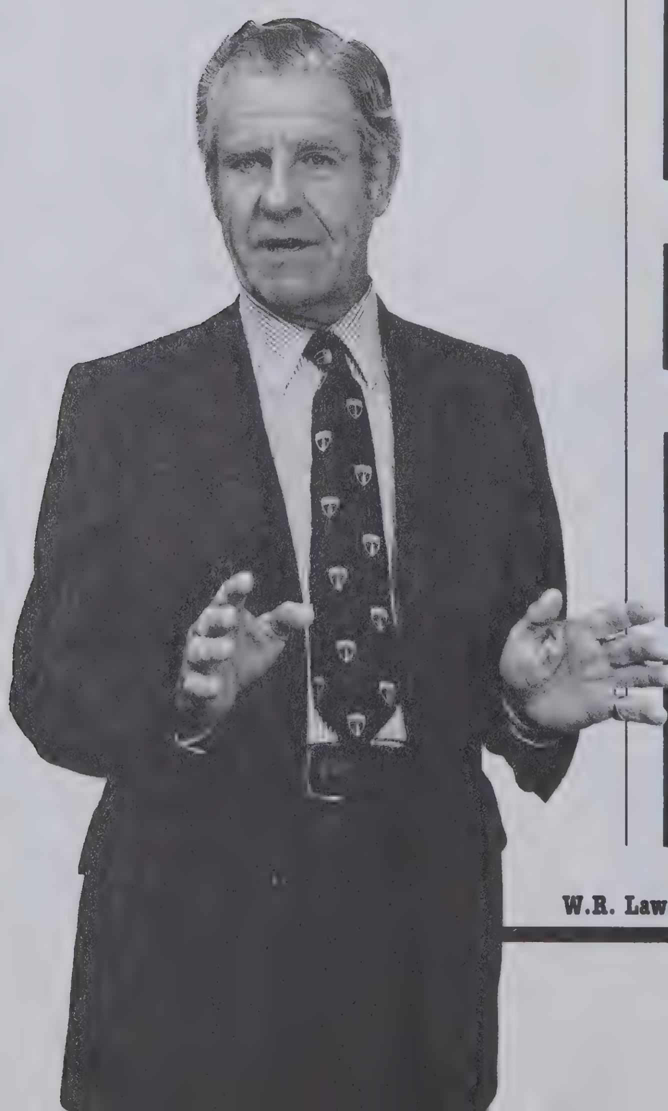
■ A return to more buoyant construction activity levels is anticipated as the United States economy strengthens and interest rates decline to more normal levels. The company will be in a good position at that time to take advantage of the opportunity created by the expanding demand.

■ Associated with the Domtar Gypsum America operations is a Mexican gypsum rock mining company in which Domtar holds a 49% interest. Practically all of the mine's production is used or marketed by Domtar Gypsum America. Activities at the mine were also reduced in 1980 due to the weak demand in the United States.

■ Domtar has ample ore carrying capacity with the delivery in late 1980 of a 28,000 ton capacity ore carrying vessel supplementing one of 20,000 tons already owned and a charter contract for part capacity of a third 25,000 ton vessel.

Total Vertical Integration





W.R. Lawson, Executive Vice-President, Domtar Inc.

Corporate Staff Services

Employee Relations and Human Resources

■ The Corporation renewed 59 collective agreements during 1980, leaving 32 negotiations to be completed in 1981. A further 38 collective agreements expire during 1981.

■ An industrial hygienist has been retained and work has begun on various programs to improve the occupational health and safety of employees.

■ The Board of Directors approved an increase in the monthly pensions paid to all Canadian pensioners who retired prior to May 2, 1978. The increased payments became effective as of January 1, 1981. Previous increases were granted in 1974 and 1978 as the Corporation attempted to counteract to a degree the effects of inflation.

■ In compliance with Quebec's French Language Charter, comprehensive multi-year francization programs for the Corporation were developed. They were approved by l'Office de la langue française.

Central Research

■ Dr. J.W. Hodgins retired as Vice-President of Research and Environmental Technology with Dr. Steven Danyluk succeeding him.

■ Research facilities have been enhanced by the installation of modern X-ray fluorescent spectrophotometric equipment, the construction of a wood preserving pilot plant and the modernization of the acoustic laboratory.

■ Some spin-offs from research into product and process improvements related to the Corporation's product lines have been licensed for manufacture by others, including an on-line smoothness sensor for paper and a Chip Classifier which classifies wood pulping chips by thickness.

■ Increased emphasis has been placed on developing a more extensive corporate program for medium to long term research.

Public Affairs

■ Domtar's donations increased from $360,000 in 1979 to $400,000 in 1980. The funds were used to support health, welfare, educational and recreational programs both nationally and in the communities in which Domtar has operations.

■ Contributions totalling $70,000 were made to Canadian political parties.

■ Domtar employees at executive, management and non-management levels at all locations continued voluntarily to devote their time, skills and energy to a variety of deserving community causes.

■ The Corporation introduced eight university entrance scholarships for eligible dependents of full-time, retired or deceased employees. To be awarded annually, the scholarships are open to students following degree courses in mathematics, sciences, business and Canadian history.

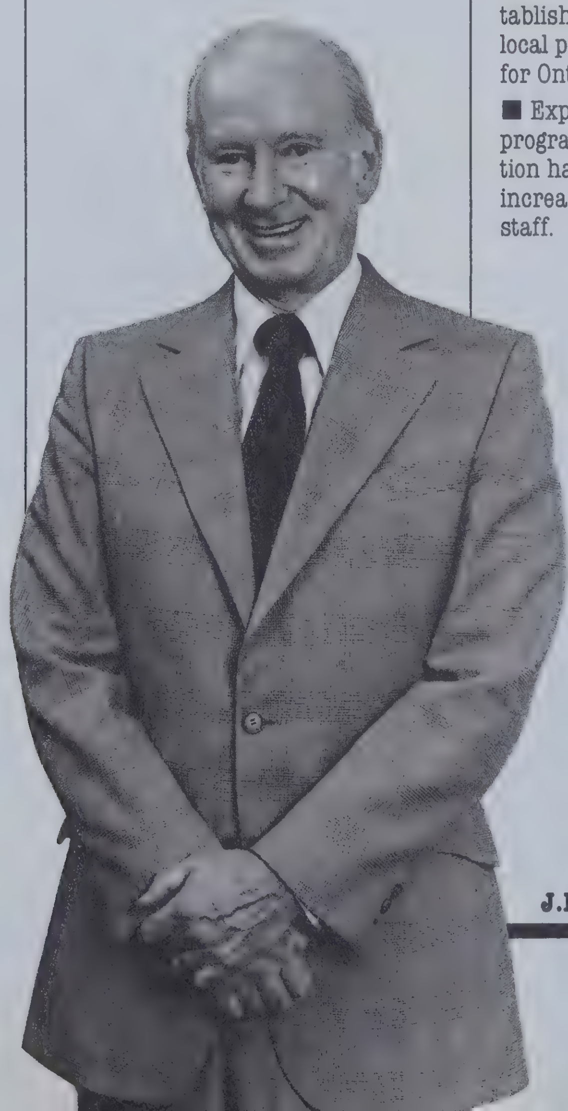
Central Engineering

■ A satellite Toronto office was established during the year to provide local project management services for Ontario-based operations.

■ Expanded capital expenditure programs throughout the Corporation have resulted in a substantial increase in Central Engineering staff.

Key Functions:

■ Labour relations
■ Human resources
■ Research and environmental Technology
■ Engineering
■ Administration
■ Corporate Secretary and Legal



J.H. Robertson, Executive Vice-President

Finance & Corporate Development

Key Functions:

- Control
- Taxation
- Internal audit
- Corporate planning
- Acquisitions
- Corporate development
- Treasury
- Pensions
- Gas and oil investments

Financing

■ During 1980, the Corporation commenced a major financing program to supplement its cash flow from operations so as to be able to proceed with its five year strategic capital investment program.

■ Steps taken in 1980 to meet financing objectives:

- Obtained some $118 million through issuing debentures and common shares.
- Filed a registration statement with the United States Securities and Exchange Commission for issuance of debentures of U.S. $100 million.
- Added $250 million in additional bank lines to bring total bank credit to some $325 million.

Corporate Developments

■ Made offers for two acquisitions: Delta Brick and Tile Company Inc. and the assets of Grand Rapids Gypsum Company.

■ Began the search for acquisitions to help Domtar achieve its growth and profitability goals.

■ Expanded the strategic planning process within the Operating Groups to encourage investment in Domtar's strongest business units.

Pension Funds

■ The Corporation through its Treasury Department provides investment management services to its two major pension funds. The market value of these funds totalled in excess of $180 million as of December 31, 1980.

D.J. Speirs, Vice-President-Finance and Corporate Development

Gas & Oil Investments

Key Areas:

■ Alberta Elmworth/Wapiti Deep Basin (contracted)

■ Other Alberta Deep Basin

■ Northeast British Columbia Deep Basin

■ Central British Columbia Nechako Basin

■ Various states in the United States

■ Domtar's gas and oil investments have been channelled through Canadian Hunter Exploration Ltd., a wholly-owned subsidiary of Noranda Mines Limited.

■ 1980 was the first full year of Domtar's participation in all exploration and development programs undertaken by Canadian Hunter in Western Canada and the United States.

■ Total expenditures by the Corporation during the year for exploration and development exceeded $5 million.

Deep Basin

■ Considerable exploration success in the British Columbia and Alberta Deep Basin areas has increased proven and probable gas reserves by 50%.

■ Domtar participated in the drilling of some 110 wells. Of this total, 91 gas wells and 9 oil wells were successful, including 70 in areas from which gas can be sold under existing contracts.

■ The average deliverability for wells completed and tested at 1,100 pounds per square inch pressure is 8.7 million cubic feet of gas per day. This is an average based on 110 wells.

■ In recognition of the substantial increases in marketable reserves developed during 1980, gas processing plant capacities are being expanded almost 300%. As a result of these expansions, which will be completed in 1981, Domtar will have a net interest in about 5 million cubic feet per day of gas plant capacity.

■ Gas contract sales in 1981 are expected to increase from Domtar's 1980 level of 1.1 million cubic feet per day, net of royalties, to 2.5 million cubic feet per day. This increase will be based on marketable reserves at November 1, 1980 and is subject to bi-annual review.

■ Negative aspects were continuing delays in the authorization of natural gas exports to the United States and the lack of agreement between Federal and provincial governments on an energy program and pricing policy.

New Areas

■ Canadian Hunter acquired exclusive exploration rights in 4,872,000 net acres of land in the Nechako Basin located in Central British Columbia (Domtar's share 182,700 acres). The initial geological and geophysical work and the first exploration well in the Basin have provided evidence that sedimentary rocks exist with potential for hydrocarbons.

■ Early in 1980, Canadian Hunter formed American Hunter Exploration Ltd. Through its prior acquisition of 25% of the investment by Agnew Lake Mines Limited in Canadian Hunter, Domtar has a 3¾% interest in the United States program. Land positions have been acquired in various states and drilling has commenced in the states of Texas, Wyoming and Nevada.

Acreage

■ As at December 31, 1980 Domtar had an undivided interest of about 3.7% in 6,631,000 net acres (9,002,000 gross acres) of licenses, permits and leases and had a further 10% in 140,000 net acres (229,000 gross acres) of licenses, permits and leases. Domtar's share of the net Canadian acreage totals 261,400 acres.

■ The United States acreage is in process of accumulation.

Liquidity and Capital Resources

At December 31, 1980 working capital totalled $365 million, an increase of $135 million from the prior year end. The increase is primarily attributable to the issue of common shares — $69 million — and long term debt — $49 million — as Domtar financed in advance a portion of its capital investment program. At December 31, 1980 Domtar had cash and cash equivalents of $152 million compared with $39 million in 1979. At year end, Domtar had a current asset to current liability ratio of 2.6 to 1 (1979 — 2.1 to 1). During 1980, the relationship between trade receivables outstanding and sales remained relatively constant, with trade receivables representing approximately 44 days' sales. The levels of inventories during 1979 and 1980, while varying seasonally, have on average been equivalent to approximately 55 days of sales. Domtar believes its inventories at December 31, 1980 were appropriate in light of projected sales volumes.

Additional sources of liquidity include cash flow from operations, which in 1980 was $168 million, and unused lines of bank credit which, at December 31, 1980, aggregated approximately $325 million and which, in accordance with Canadian banking practice, are subject to annual review. Further, the Corporation has filed a preliminary prospectus for the issue of U.S. $100 million of long-term debt with the Securities and Exchange Commission in the United States. Domtar's debt/equity ratio at December 31, 1980 was 27:73.

Domtar estimates that its capital expenditures during 1981 will total about $210 million, excluding expenditures for possible acquisitions of businesses. In 1980, capital expenditures (including acquisitions) were $128 million.

Domtar believes that its financial resources, including cash flow from operations and its access to external funds, will be adequate for its working capital needs and to carry out its projected capital investment and acquisitions programs.

1980 Compared to 1979

Results of Operations

Sales increased by 11% in 1980 due almost entirely to higher prices in all of Domtar's product groups. However, expenses rose at a slightly higher rate than sales, primarily due to inflationary pressures.

While interest paid on long-term debt increased because of the issuance of additional debt, interest on long-term debt charged to income was lower than in 1979 as a result of the capitalization in 1980 of interest related to major capital projects.

Earnings before extraordinary items were marginally below the 1979 level. In 1980, net earnings included two extraordinary items — the $4.6 million loss on closure of a paper mill in the United Kingdom and the $2.6 million gain on the sale of an investment — for a net loss of $2 million. Net earnings per common share reflect the dilution resulting from the issuance of 2.6 million common shares during the first quarter of 1980.

Pulp & Paper Products

Group sales were up 10% over 1979 despite strikes at its three fine paper mills in Ontario (which commenced on October 25, 1980 and are continuing) and strikes at two sawmills in Québec (which commenced in August and December 1980 and one of which is continuing). These strikes are estimated to have reduced 1980 Group sales by approximately 5%. Prices were generally higher for all products except lumber, prices for which fell due to the weak demand for housing in North America. Sales volumes of lumber, newsprint and groundwood specialty papers increased. Group operating profit was down 5% from 1979 due mainly to the effect of the strikes, which more than offset better margins for market pulp, fine papers, newsprint and groundwood specialty papers. The strikes at the fine paper mills will have a more serious impact on sales and earnings in 1981 than that experienced in 1980.

Packaging

Group sales increased by 21% due to the additional sales volumes from plants acquired in mid-1979 and in 1980 and to general price increases. Group operating profit increased by 26% due mainly to improved margins on corrugating medium, linerboard and kraft papers.

Chemicals

Group sales increased by 13% mainly due to price and volume increases in the CDC® division and price increases in the Sifto® Salt division. The CDC® division's volume increase was attributable to the resumption of operations by a principal customer following strikes affecting that customer's plants in 1979 and to expansion into offshore markets. The sales volume of lime was off 30% due to reduced activity in the steel industry. Group operating profit increased 26% due to generally improved margins.

Construction Materials

Group sales were virtually unchanged with price increases substantially offset by lower sales volumes. Sales volumes of gypsum wallboard, masonry and insulation products were severely affected by the low level of housing starts in North America. Group operating profit declined 64% due to generally lower sales volumes and depressed margins.

1979 Compared to 1978

Results of Operations

Sales increased by 21% to $1,495 million due to sales increases in all of Domtar's operating groups. The largest contributor to this increase was the Pulp and Paper Products Group, which accounted for almost 50% of the consolidated sales increase, with fine papers accounting for approximately 36% of the consolidated sales increase reflecting increases in both sales prices and volumes. In addition, Packaging Group sales increased by 36%, accounting for almost 26% of the consolidated sales increase, due largely to sales from three corrugated container plants and a linerboard mill, all acquired in March 1979. The Construction Materials Group recorded a 14% increase in sales, accounting for approximately 16% of the increase in consolidated sales, due mainly to the inclusion of a full year's sales of Domtar Gypsum America. Sales of the Chemicals Group increased 11%, accounting for approximately 9% of the increase in consolidated sales, despite reduced sales volume of coal tar products and lime due to strikes at customers' plants and reduced sales volume of salt due to weather conditions.

The cost of sales increased by 17% to $1,162 million due largely to the effect of inflation on the costs of production as well as to the costs associated with the operations of the corrugating facilities acquired in 1979, the inclusion of a full year's costs of Domtar Gypsum America and increased sales volumes in the Fine Papers division. Selling and administrative expenses increased by 21% to $105 million due principally to inflation as well as to the acquisition of the corrugating facilities, the inclusion of a full year's selling and administrative costs of Domtar Gypsum America and the hiring of additional personnel. Depreciation expense increased by 10% to $48 million primarily as a result of depreciation on capital equipment acquired in 1978 and to a lesser extent the acquisition of the corrugating facilities.

Operating profit increased by $68 million or 58% to $185 million. The $49 million increase in operating profit of the Pulp and Paper Products Group was mainly due to improved margins in newsprint, fine papers and pulp operations as well as increased sales volumes of fine papers. Operating profit of the Packaging Group increased by $7 million due to higher margins and the profit contributed by the newly acquired assets. Operating profit of the Construction Materials Group also increased due to the inclusion of a full year's earnings of Domtar Gypsum America, and despite lower sales volumes of gypsum products in Canada due to the reduced level of housing starts in Canada and the start-up costs associated with the new ceiling panel plant in Cornwall, Ontario. Operating profit of the Chemicals Group improved slightly, despite lower sales volumes of many of its products.

Net earnings increased by 55% to $98 million in 1979 due primarily to increased operating profits in all of Domtar's product groups.

Definition of Terms Used on Pages 12, 18, 24 and 30

1. Trade sales refer to sales by the Corporation to customers.
2. Operating profit is revenue less allocable operating expenses before income taxes, interest income and expense and general corporate expenses.
3. Net operating assets are the identifiable assets of the business less related current liabilities.

December 31
(thousands of Canadian dollars)

Assets	**1980**		1979	
Current assets:				
Cash and short-term investments, at cost (approximates market value)	**$ 155,240**		$ 39,840	
Receivables, less allowance for doubtful accounts of $5,398 (1979 — $5,545)	**221,487**		210,336	
Inventories	**214,628**		189,015	
Prepaid expenses	**5,269**		3,052	
		$ 596,624		$ 442,243
Investments and advances, at cost		**8,306**		8,649
Fixed assets:				
Plant, machinery and facilities	**1,066,282**		960,126	
Timber limits and land	**39,511**		37,366	
Gas and oil properties	**48,521**		44,387	
	1,154,314		1,041,879	
Less: Accumulated depreciation and depletion	**569,602**		529,098	
		584,712		512,781
Intangible assets and deferred charges (net of amortization):				
Unrealized exchange losses	**8,321**		6,901	
Debt issue expenses	**1,456**		1,040	
Goodwill and other intangibles	**4,455**		5,419	
		14,232		13,360
		$1,203,874		$ 977,033

Approved by the board:

Pierre Côté, Director

A.D. Hamilton, Director

Liabilities and Shareholders' Equity	1980		1979	
Current liabilities:				
Bank indebtedness	**$ 3,584**		$ 417	
Payables	**187,007**		172,014	
Income and other taxes payable	**32,108**		30,311	
Dividends payable	**8,884**		6,841	
Long-term debt due within one year	**—**		2,529	
		$ 231,583		$ 212,112
Long-term debt		**214,590**		167,035
Deferred income taxes		**148,444**		128,884
Deferred credit		**12,250**		—
Minority interest		**2,975**		3,635
Commitments and contingent liabilities (Note 17)				
Shareholders' equity:				
Stated capital — $1 cumulative preference shares without nominal or par value, redeemable at $25 per share. Authorized and outstanding 512,916 shares	**12,054**		12,054	
17,443,217 common shares (1979 — 14,841,358 shares)	**253,545**		181,997	
Retained earnings	**328,433**		271,316	
		594,032		465,367
		$1,203,874		$ 977,033

See accompanying notes to financial statements.

Year Ended December 31
(thousands of Canadian dollars, except per share amounts)

	1980	1979	1978
Revenue:			
Sales	**$1,653,249**	$1,495,370	$1,240,909
Investment and sundry income	**15,847**	8,760	13,991
	1,669,096	1,504,130	1,254,900
Expenses:			
Cost of sales	**1,310,965**	1,161,757	996,496
Selling and administrative	**124,782**	105,211	86,876
Research	**6,631**	5,641	5,057
Depreciation and depletion	**49,366**	48,007	43,629
Net loss on disposal of fixed assets	**—**	—	2,294
	1,491,744	1,320,616	1,134,352
Earnings before interest, income taxes, minority interest and extraordinary items	**177,352**	183,514	120,548
Interest — long-term debt	**14,466**	15,107	15,661
— other indebtedness	**868**	1,672	1,334
	15,334	16,779	16,995
Earnings before income taxes, minority interest and extraordinary items	**162,018**	166,735	103,553
Income taxes — current	**45,290**	52,710	28,130
— deferred	**19,560**	15,830	11,420
	64,850	68,540	39,550
Earnings before minority interest and extraordinary items	**97,168**	98,195	64,003
Minority interest	**494**	278	699
Earnings before extraordinary items	**96,674**	97,917	63,304
Extraordinary items	**(2,044)**	—	—
Net earnings	**$ 94,630**	$ 97,917	$ 63,304
Per common share:			
Earnings before extraordinary items	**$5.78**	$6.57	$4.23
Net earnings	**$5.66**	$6.57	$4.23
Average number of common shares outstanding (millions)	**16.6**	14.8	14.8

See accompanying notes to financial statements

Consolidated Statement of Changes in Financial Position

Year Ended December 31
(thousands of Canadian dollars)

	1980	1979	1978
Funds provided by:			
Earnings before extraordinary items	**$ 96,674**	$ 97,917	$ 63,304
Items not affecting cash flow from operations:			
Depreciation and depletion	**49,366**	48,007	43,629
Fixed asset disposals — net loss	**—**	—	2,294
Deferred income taxes	**19,560**	15,830	11,420
Other	**2,354**	1,971	2,398
Cash flow from operations	**167,954**	163,725	123,045
Common shares issued, net of expenses	**69,384**	323	—
Government grants received	**15,750**	—	—
Long-term debt issued, net of expenses	**51,216**	—	—
Fixed asset disposals	**2,925**	2,046	3,499
Minority interest sold	**—**	1,875	—
Investments and advances	**556**	—	4,742
Extraordinary item — sale of investment	**3,022**	—	—
	310,807	167,969	131,286
Funds used for:			
Fixed asset purchases	**116,550**	93,115	41,039
Businesses acquired, less working capital at acquisition	**11,214**	67,337	33,420
Long-term debt reduction	**6,667**	7,076	8,923
Minority interest purchased	**1,154**	1,727	8,715
Investments and advances	**—**	597	—
Dividends	**35,349**	27,208	16,823
Extraordinary item — costs associated with discontinued U.K. operation	**4,963**	—	—
	175,897	197,060	108,920
Working capital — increase (decrease)	**134,910**	(29,091)	22,366
Non-cash working capital — increase (details on page 44)	**22,677**	12,453	14,346
Cash and short-term investments less bank indebtedness — increase (decrease)	**$112,233**	$(41,544)	$ 8,020

Year Ended December 31
(thousands of Canadian dollars)

	1980	1979	1978
Changes in components of non-cash working capital:			
Receivables	**$ 11,151**	$ 33,615	$ 25,771
Inventories	**25,613**	34,834	10,837
Prepaid expenses	**2,217**	(2,260)	1,880
Payables	**(14,993)**	(37,153)	(21,725)
Income and other taxes payable	**(1,797)**	(14,013)	(7,681)
Dividends payable	**(2,043)**	(41)	(3,618)
Long-term debt due within one year	**2,529**	(2,529)	8,882
Non-cash working capital — increase	**$ 22,677**	$ 12,453	$ 14,346

Consolidated Statement of Retained Earnings

Year Ended December 31
(thousands of Canadian dollars)

	1980	1979	1978
Balance at beginning of year	**$271,316**	$ 200,607	$ 203,056
Net earnings	**94,630**	97,917	63,304
	365,946	298,524	266,360
Deduct:			
Share issue expenses less income taxes of $1,663	**2,116**	—	—
Retained earnings capitalized	—	—	48,930
Dividends-			
Preference shares, $1.00 per share	**513**	513	513
Common shares, $2.00 per share (1979 — $1.80; 1978 — $1.10)	**34,884**	26,695	16,310
	35,397	27,208	16,823
Balance at end of year	**$328,433**	$ 271,316	$ 200,607

See accompanying notes to financial statements

(thousands of Canadian dollars unless otherwise noted)

1. Summary of significant accounting policies:

The following is a summary of the significant accounting policies of the Corporation. These policies are in accordance with generally accepted accounting principles in Canada and are also, except for translation of foreign currencies disclosed in Note 15, in all material respects in accordance with those generally accepted in the United States. These policies have been followed consistently for the period except for the change in the method of accounting for the capitalization of interest costs in 1980 described in Note 11.

Principles of consolidation:
The accompanying financial statements include the accounts of Domtar Inc. and all its subsidiaries.

Translation of foreign currencies:
Amounts stated in foreign currencies are translated into Canadian dollars as follows: current assets (except inventories), current liabilities and long-term monetary assets and liabilities are translated at year-end exchange rates; all other assets (including inventories) and liabilities are translated at the exchange rates prevailing on the transaction dates. Revenues and expenses are translated at the average exchange rates for the year, except for cost of sales, depreciation, depletion and amortization, which are translated at the exchange rates prevailing when the related assets were manufactured or acquired.

All gains and losses arising from the translation of foreign currencies are included in net earnings, except for unrealized gains and losses on long-term monetary assets and liabilities, which are deferred and amortized over the remaining lives of the related items.

Valuation of inventories:
Inventories of raw materials and operating and maintenance supplies are valued at average cost. Finished goods and work in process are valued at the lower of average cost and net realizable value and include the cost of raw materials, direct labour and certain manufacturing overhead expenses.

Fixed assets and depreciation:
Fixed assets are recorded at cost. The cost and related accumulated depreciation of items retired or disposed of are removed from the books and any gains or losses are included in the consolidated statement of earnings. Depreciation is provided on the straight-line method, except for gas and oil well equipment which is on a unit of production basis, using rates based on the estimated useful lives of the assets which are generally as follows:

Production machinery	12 to 16 years
Logging equipment	Up to 6 years
Ships	Up to 15 years
Automobiles	4 years
Buildings	Up to 40 years

The Corporation follows the successful efforts method of accounting for gas and oil properties. Under this method, lease acquisition costs and the cost of exploring and developing producing wells are capitalized. The costs of unsuccessful wells are charged to expenses. The undeveloped properties are reviewed annually and, where impairment to value is determined, the capitalized costs are written off. The capitalized costs of proven properties are depleted by the unit of production method.

Expenditures for repairs and maintenance are charged against earnings as incurred.

Income taxes:
The Corporation provides for income taxes on the tax allocation basis. Accordingly deferred income tax provisions are recorded in the consolidated statement of earnings in order to reflect the income tax effects of timing differences, principally due to depreciation and depletion claimed for income tax purposes in excess of amounts recorded for financial statement purposes. The impact of the federal investment tax credit is reflected in earnings in the year during which the related expenditures are made.

Provisions have not been made for income taxes on undistributed income of foreign subsidiaries as such income is being reinvested in foreign operations.

Intangible assets and deferred charges:
Unrealized exchange losses on long-term debt are amortized over the remaining term of the debt.

Expenses on the issue of long-term debt are amortized on a straight-line basis over the terms of the related obligations.

Goodwill represents the excess of the cost of shares of acquired companies over the values attributed to the underlying net assets. The Corporation follows the policy of amortizing goodwill on a straight-line basis over periods not exceeding twenty-five years.

Other intangibles are amortized on a straight-line basis over their estimated useful lives.

1. Summary of significant accounting policies (Cont'd):

Pension costs:
Pension costs associated with current service are expensed and funded in the period in which the service is rendered. Past service costs remaining to be charged to operations are amortized and funded over periods not exceeding those during which funding is permitted by the applicable regulatory bodies.

Research:
Research expenses are charged against earnings as incurred.

Capitalization of interest:
The Corporation capitalizes interest costs related to major capital expenditures during the period of construction.

2. Cash and short-term investments:

	1980		1979	
Cash		$ 14,912		$ 4,925
Short-term investments:				
Treasury bills	$ 24,434		$ 3,474	
Bank obligations	100,742		31,321	
Corporate bonds	15,022		—	
Other	130		120	
		140,328		34,915
		$155,240		$ 39,840

3. Inventories:

	1980	1979
Raw materials	$ 84,212	$ 72,450
Work in process	10,783	13,598
Finished goods	91,122	75,595
Operating and maintenance supplies	28,511	27,372
	$214,628	$ 189,015

4. Unused lines of credit:

The Corporation has $327.1 million of unused lines of credit at December 31, 1980 (1979 — $75.3 million). These lines of credit are subject to annual review and loans thereunder bear interest at rates varying from the banker's acceptance cost, which is generally below the bank's prime lending rate, to the bank's prime lending rates plus ¼%.

5. Payables:

	1980	1979
Trade payables	$156,818	$ 150,257
Accruals — payrolls and commissions	23,624	16,316
— interest on long-term debt	6,565	5,441
	$187,007	$ 172,014

6. Long-term debt:

	Maturity	1980	1979
Sinking fund debentures — 6¼% Series "B"	1980	$ —	$ 2,850
5½% Series "C"	1982	4,087	5,900
5¾% Series "D"	1984	7,460	8,800
5⅝% Series "E"	1990	22,519	25,200
6¾% Series "F"	1987	24,937	28,000
11% Series "G"	1995	49,004	50,000
9⅝% Series "H" (U.S. $50,000)	1996	59,735	58,390
12¼% Series "I" (U.S. $42,000)	2000	50,177	—
Convertible Notes	1990	2,700	—
		220,619	179,140
Less: Held for sinking fund		6,029	9,576
		214,590	169,564
Less: Due within one year		—	2,529
		$214,590	$ 167,035

The Convertible Notes due in 1990, which bear interest at the prime rate, have been issued to certain officers of the Corporation and are convertible into common shares at the rate of $25.21 per common share, determined on the basis of the fair market value of the common shares immediately prior to the issue of the Notes. The Notes are also redeemable at any time by the Corporation.

Amounts due for retirement or sinking fund provisions in each of the next five years:

1981	1982	1983	1984	1985
$ —	$10,383	$10,105	$14,905	$ 9,305

7. Deferred credit:

During 1980, the Corporation received $15.8 million in government grants, of which $3.5 million has been credited to fixed assets. These grants are contingent upon making certain capital expenditures over a five-year period and are credited to fixed assets only when the related capital expenditures are incurred.

8. Stated capital:

Changes in the number and stated value of common shares since January 1, 1978 are as follows:

	1980 Number of shares	1980 $	1979 Number of shares	1979 $	1978 Number of shares	1978 $
Balance at beginning of year	14,841,358	181,997	14,827,300	181,674	14,827,300	132,744
Shares issued for cash	2,600,000	71,500	14,058	323	—	—
Retained earnings capitalized	—	—	—	—	—	48,930
Stock dividends	1,859	48	—	—	—	—
Balance at end of year	17,443,217	253,545	14,841,358	181,997	14,827,300	181,674

There is no limit on the number of common shares the Corporation may issue.

There has been no change in preference shares authorized and oustanding during the three-year period.

9. Retained earnings:

The Trust Deeds securing the long-term debt issued thereunder contain restrictions on the payment of dividends, other than stock dividends, on common shares. Under the most restrictive provision, $147.7 million of retained earnings at December 31, 1980 would not be available for payment as dividends on common shares other than through stock dividends.

10. Earnings per common share:

Earnings per common share are based on the weighted average number of shares oustanding. Fully diluted earnings per share have not been disclosed since the Convertible Notes would not cause significant dilution.

11. Accounting change — capitalization of interest costs:

In prior years, all interest costs were charged against earnings as incurred. Interest of $3.1 million was capitalized for the year ended December 31, 1980 which had the effect of increasing net earnings by $1.7 million ($0.10 per common share).

12. Pension plans:

The Corporation has pension plans for its employees. The cost charged against earnings for the year ended December 31, 1980 was $13.0 million; 1979 — $13.6 million; 1978 — $11.9 million.

At December 31, 1980, the Corporation's liability for benefits in respect of past service remaining to be charged to operations was $40.3 million (1979 — $31.3 million). This liability is calculated on the assumption that operations will continue and on the basis of actuarial determinations used for funding purposes which reflect assumed future compensation levels, where appropriate. The amount is being amortized and funded over periods of up to 15 years in Canada and up to 35 years in the United States.

13. Income taxes:	**1980**	1979	1978
The following summarizes the Corporation's income tax provisions, including elements of deferred income taxes, on earnings of its Canadian and foreign operations:			
Canada:			
Earnings before income taxes, minority interest and extraordinary items	**$151,916**	$ 133,878	$ 88,435
Income taxes:			
Current	**44,611**	42,184	20,851
Deferred —			
Excess of income tax allowances over financial statement depreciation and depletion	**20,717**	13,407	8,359
Expense provisions not deductible until paid	**(996)**	(42)	(441)
Other items	**(1,735)**	2,758	3,552
Total deferred	**17,986**	16,123	11,470
	62,597	58,307	32,321
Earnings before minority interest and extraordinary items	**$ 89,319**	$ 75,571	$ 56,114

13. **Income taxes (cont'd):**	**1980**	1979	1978
Foreign:			
Earnings before income taxes, minority interest and extraordinary items	**$ 10,102**	$ 32,857	$ 15,118
Income taxes:			
Current	**679**	10,526	7,279
Deferred — Excess of income tax allowances over financial statement depreciation and depletion	**1,378**	550	732
Expense provisions not deductible until paid	**—**	—	—
Other items	**196**	(843)	(782)
Total deferred	**1,574**	(293)	(50)
	2,253	10,233	7,229
Earnings before minority interest and extraordinary items	**$ 7,849**	$ 22,624	$ 7,889
Total:			
Earnings before income taxes, minority interest and extraordinary items	**$162,018**	$ 166,735	$ 103,553
Income taxes:			
Current	**45,290**	52,710	28,130
Deferred — Excess of income tax allowances over financial statement depreciation and depletion	**22,095**	13,957	9,091
Expense provisions not deductible until paid	**(996)**	(42)	(441)
Other items	**(1,539)**	1,915	2,770
Total deferred	**19,560**	15,830	11,420
	64,850	68,540	39,550
Earnings before minority interest and extraordinary items	**$ 97,168**	$ 98,195	$ 64,003

Effective income tax rates differ from the Canadian statutory income tax rates. The principal factors causing these different income tax rates are as follows:

Statutory Canadian tax rate	**49.0%**	48.0%	48.0%
Canadian manufacturing and processing allowance	**(5.0)**	(4.5)	(4.1)
Resource and depletion allowances	**(0.6)**	(1.0)	(2.1)
Mining tax	**0.2**	0.9	0.8
Investment tax credit	**(2.8)**	(2.1)	(2.7)
Other items	**(0.8)**	(0.2)	(1.7)
Effective income tax rate	**40.0%**	41.1%	38.2%

14. Extraordinary items:

	1980
The extraordinary items consisted of:	
Loss on discontinuation of the United Kingdom mill operation	$(4,659)
Gain on sale of the investment in Consoweld Corporation	2,615
	$(2,044)

Under generally accepted accounting principles in the United States, these items would enter into the determination of earnings from continuing operations rather than being treated as extraordinary.

15. Information presented in accordance with generally accepted accounting principles in the United States:

Net earnings —

The Financial Accounting Standards Board in the United States requires that all gains and losses resulting from the translation of foreign currencies, including unrealized gains and losses on long-term monetary assets and liabilities, be included directly in net earnings rather than deferred and amortized. A reconciliation of net earnings determined in accordance with generally accepted accounting principles in Canada with net earnings determined in accordance with those in the United States is set forth below:

	1980	1979	1978
Net earnings as reported	$ 94,630	$ 97,917	$ 63,304
Add: Amortization of unrealized exchange losses on long-term debt	1,037	800	1,394
	95,667	98,717	64,698
Exchange gain (loss) on translation of long-term debt at exchange rates prevailing at the end of each year	(2,457)	895	(4,580)
Net earnings in accordance with generally accepted accounting principles in the United States	$ 93,210	$ 99,612	$ 60,118
Net earnings per common share in accordance with generally accepted accounting principles in the United States	$5.57	$6.68	$4.02

Pension plans —

The present value of accumulated plan benefits under the Corporation's pension plans as at December 31, 1980 was $222.6 million of which $220.9 million was for vested and $1.7 million for non-vested benefits. These actuarially determined benefits are calculated on the basis of existing compensation levels from valuation data as of December 31, 1979, projected to December 31, 1980. The weighted average rate of return assumed in determining the actuarial present value was 6%. Net assets available for benefits at December 31, 1980 were $209.5 million.

16. Businesses acquired:

	1980	1979
During 1980, the Corporation acquired the assets of two corrugated container plants in Western Canada.		
The following is a summary of net assets obtained through acquisitions:		
Net assets acquired at assigned values:		
Fixed assets	$ 11,174	$ 66,923
Working capital	2,850	4,508
	14,024	71,431
Excess of cost over assigned values of net assets acquired	40	414
Net assets acquired for cash	$ 14,064	$ 71,845
Acquisitions by industry segment:		
Pulp and paper	$ —	$ 86
Packaging	14,064	27,266
Gas and oil	—	44,493
	$ 14,064	$ 71,845
Acquisitions by geographic area:		
Canada	$ 14,064	$ 71,098
United States	—	747
	$ 14,064	$ 71,845

17. Commitments and contingent liabilities:

Of the 1981 capital expenditures program, the Corporation is committed for approximately $35 million.

Minimum rental commitments under operating leases, determined as at December 31, 1980, amounted to:

1981	1982	1983	1984	1985
$10,721	$ 9,148	$ 7,773	$ 7,259	$ 7,081

Total rental expense amounted to $12.5 million in 1980; $10.7 million in 1979 and $8.9 million in 1978.

There are oustanding lawsuits and claims against the Corporation as follows:

(a) Proceedings instituted by certain Cree Indians alleging that the mercury content of the environment has partly been caused by mercury discharges of the Corporation's chemical plant at Lebel-sur-Quévillon, Québec. They are claiming from the Corporation, jointly and severally with several other defendants, approximately $5.2 million in damages.

(b) Various lawsuits and claims aggregating $4 million.

The Corporation is contesting these lawsuits and claims and does not consider that their outcome will have a material adverse effect on the Corporation.

18. Segmented information:

The Corporation's operations and assets by industry segment and by geographic area are as follows:

By industry segment

	1980	1979	1978	1977	1976
Trade sales:	(millions of Canadian dollars)				
Pulp and paper —					
Fine papers	**$ 449.3**	$ 421.1	$ 327.8	$ 271.3	$ 203.8
Newsprint and groundwood specialty papers	**215.0**	181.7	160.8	122.0	115.3
Other	**122.9**	109.7	97.0	80.8	61.3
Total	**787.2**	712.5	585.6	474.1	380.4
Packaging —					
Corrugated containers and containerboard	**217.8**	174.5	120.8	106.4	102.9
Other	**83.5**	75.1	63.4	65.7	78.5
Total	**301.3**	249.6	184.2	172.1	181.4
Construction materials	**323.9**	321.2	281.0	197.4	172.0
Chemicals	**240.2**	211.9	190.1	165.9	153.0
Gas and oil	**.6**	.2	—	—	—
Consolidated sales	**$1,653.2**	$ 1,495.4	$ 1,240.9	$ 1,009.5	$ 886.8
Inter-segment sales	**$ 25.4**	$ 22.3	$ 13.8	$ 16.7	$ 15.9
Operating profit (loss):					
Pulp and paper	**$ 91.2**	$ 95.5	$ 46.1	$ 11.3	$ (10.7)
Packaging	**32.3**	25.7	18.4	12.8	11.3
Construction materials	**11.8**	33.1	26.3	11.2	11.0
Chemicals	**39.0**	30.9	26.3	20.8	17.6
Gas and oil	**(1.4)**	—	—	—	—
	172.9	185.2	117.1	56.1	29.2
Corporate administrative expenses	**(9.3)**	(7.1)	(5.5)	(5.2)	(5.2)
Fixed asset disposals — net gain (loss)	**—**	—	(2.3)	—	1.6
Corporate interest and other income	**13.7**	5.4	11.3	7.8	8.2
	177.3	183.5	120.6	58.7	33.8
Interest expense	**(15.3)**	(16.8)	(17.0)	(16.9)	(14.2)
Earnings before income taxes, minority interest and extraordinary items	**$ 162.0**	$ 166.7	$ 103.6	$ 41.8	$ 19.6

18. Segmented information (cont'd):	1980	1979	1978	1977	1976
By industry segment (cont'd.)					
Identifiable assets:			(millions of Canadian dollars)		
Pulp and paper	**$ 417.6**	$ 399.0	$ 365.0	$ 369.6	$ 350.8
Packaging	**194.5**	156.3	114.1	110.2	126.6
Construction materials	**206.2**	179.3	143.8	85.9	82.9
Chemicals	**152.4**	137.5	123.8	115.7	101.6
Gas and oil	**50.7**	45.9	—	—	—
	1,021.4	918.0	746.7	681.4	661.9
Corporate	**182.5**	59.0	116.7	101.1	106.0
	$1,203.9	$ 977.0	$ 863.4	$ 782.5	$ 767.9
Depreciation and depletion:					
Pulp and paper	**$ 23.2**	$ 24.8	$ 22.8	$ 20.3	$ 19.0
Packaging	**9.2**	8.4	7.3	7.6	7.3
Construction materials	**8.4**	7.3	6.2	4.3	2.8
Chemicals	**7.8**	7.0	6.9	6.3	5.9
Gas and oil	**0.5**	0.1	—	—	—
	49.1	47.6	43.2	38.5	35.0
Corporate	**0.3**	0.4	0.4	0.4	0.4
	$ 49.4	$ 48.0	$ 43.6	$ 38.9	$ 35.4
Capital expenditures (excluding acquisitions):					
Pulp and paper	**$ 41.7**	$ 35.7	$ 12.4	$ 14.6	$ 24.7
Packaging	**22.7**	8.4	5.2	5.9	5.5
Construction materials	**30.1**	35.3	13.3	3.6	7.7
Chemicals	**13.5**	12.7	9.1	13.9	5.8
Gas and oil	**4.7**	0.5	—	—	—
	112.7	92.6	40.0	38.0	43.7
Corporate	**3.8**	0.5	1.0	—	0.7
	$ 116.5	$ 93.1	$ 41.0	$ 38.0	$ 44.4

18. Segmented information (cont'd):	1980	1979	1978	1977	1976
By geographic area					
Trade sales:			(millions of Canadian dollars)		
Canada — Within Canada	$1,141.0	$ 999.2	$ 863.2	$ 755.0	$ 681.2
To United States	276.7	262.6	227.0	164.2	132.3
Offshore	63.8	49.5	27.3	32.8	28.3
	1,481.5	1,311.3	1,117.5	952.0	841.8
United States	117.4	134.8	85.4	26.3	21.4
Other	54.3	49.3	38.0	31.2	23.6
Consolidated sales	$1,653.2	$ 1,495.4	$ 1,240.9	$ 1,009.5	$ 886.8
Transfers between geographic areas	$ 40.2	$ 38.3	$ 17.1	$ 10.3	$ 10.6
Operating profit (loss):					
Canada	$ 161.0	$ 149.9	$ 103.6	$ 54.3	$ 33.3
United States	9.8	32.0	13.1	3.0	(1.5)
Other	2.1	3.3	0.4	(1.2)	(2.6)
	172.9	185.2	117.1	56.1	29.2
Corporate administrative expenses	(9.3)	(7.1)	(5.5)	(5.2)	(5.2)
Fixed asset disposals — net gain (loss)	—	—	(2.3)	—	1.6
Corporate interest and other income	13.7	5.4	11.3	7.8	8.2
	177.3	183.5	120.6	58.7	33.8
Interest expense	(15.3)	(16.8)	(17.0)	(16.9)	(14.2)
Earnings before income taxes, minority interest and extraordinary items	$ 162.0	$ 166.7	$ 103.6	$ 41.8	$ 19.6
Identifiable assets:					
Canada	$ 887.3	$ 787.2	$ 659.8	$ 635.3	$ 622.5
United States	90.5	69.9	59.0	25.8	22.0
Other	43.6	60.9	27.9	20.3	17.4
	1,021.4	918.0	746.7	681.4	661.9
Corporate	182.5	59.0	116.7	101.1	106.0
	$1,203.9	$ 977.0	$ 863.4	$ 782.5	$ 767.9

The industry segments have been determined by the Board of Directors as recorded in the minutes of a meeting held on January 30, 1981. The segments have been determined by reference to the Corporation's operating groups and divisions.

Sales to other segments reflect transfer prices at market value.

Segment operating profit is revenue less allocable operating expenses.

Segment identifiable assets are those which are directly used in segment operations or geographic areas. Corporate assets are principally marketable securities, certain non-trade receivables, prepaid items and other assets.

Auditors' Report

To the Shareholders of
Domtar Inc.

We have examined the consolidated balance sheets of Domtar Inc. as at December 31, 1980 and 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the three years ended December 31, 1980. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1980 and 1979 and the results of its operations and the changes in its financial position for the three years ended December 31, 1980 in accordance with generally accepted accounting principles applied on a consistent basis during the three year period except for the change, with which we concur, in the method of accounting for interest costs which is referred to in Note 11 to the consolidated financial statements.

PRICE WATERHOUSE & CO.
Chartered Accountants
Montréal, January 30, 1981

Quarterly financial information (unaudited):

(millions of Canadian dollars, except per share amounts)

1980	1st	2nd	3rd	4th	Total
Sales	$420.6	$397.7	$423.6	$411.3	$1,653.2
Gross profit	$ 95.5	$ 79.7	$ 86.3	$ 80.8	$ 342.3
Earnings before extraordinary items	$ 29.1	$ 20.2	$ 24.9	$ 22.4	$ 96.6
Net earnings	$ 29.1	$ 20.2	$ 20.1	$ 25.2	$ 94.6
Per common share (1):					
Earnings before extraordinary items	$ 1.94	$ 1.14	$ 1.43	$ 1.27	$ 5.78
Net earnings	$ 1.94	$ 1.14	$ 1.14	$ 1.44	$ 5.66
Market price — high	$ 30¾	$ 25⅜	$ 27⅜	$ 30	
— low	$ 22½	$ 21¾	$ 24¼	$ 25	
1979					
Sales	$352.5	$359.6	$381.7	$401.6	$1,495.4
Gross profit	$ 76.7	$ 76.2	$ 85.4	$ 95.3	$ 333.6
Net earnings	$ 22.0	$ 21.3	$ 26.3	$ 28.3	$ 97.9
Per common share:					
Net earnings	$ 1.48	$ 1.42	$ 1.77	$ 1.90	$ 6.57
Market price — high	$ 27	$ 29¼	$ 29	$ 26¾	
— low	$ 24	$ 23¾	$ 25⅛	$ 22⅜	

(1) 1980 per share data takes into account the issue of an additional 2.6 million common shares in March 1980.

Inflation Accounting

Domtar is continuing the practice established in 1974 of including in its Annual Report price-level adjusted (constant dollar) financial information. This supplementary information analyses the overall impact of inflation on the Corporation.

In prior years, information has also been provided concerning the effects of inflation on funds available for distribution and expansion based on the recommendations of the Ontario Government's Committee on Inflation Accounting (Ontario Method). This information was prepared mainly on a replacement cost basis. In both Canada and the United States, replacement cost accounting has been rejected in favour of a combination of current cost and constant dollar information; therefore, the Corporation has discontinued use of the Ontario Method.

In late 1979, the Canadian Institute of Chartered Accountants issued its exposure draft on current cost accounting, a method of measuring the effect of changes in the prices of specific goods and services on the results and financial position of a business. The Corporation's reply expressed its concern that the proposed disclosure requirements differed significantly from those presently required by regulatory authorities in the United States.

Restatement of Net Earnings on a Constant Dollar Basis

Year ended December 31, 1980 (millions of Canadian dollars)	Historic Dollars	Constant Dollars 1980 Year-end	Gain (loss) on Restatement
Sales	$ 1,653	$ 1,737	$ 84
Cost of sales	1,311	1,400	(89)
Depreciation	49	85	(36)
Other expenses (net)	131	139	(8)
Income taxes	65	68	(3)
Earnings from continuing operations	97	45	(52)
Extraordinary items	(2)	(3)	(1)
Gain on net monetary liabilities	—	26	26
Net earnings	$ 95	$ 68	$ (27)

Constant Dollar Information

The Corporation has restated comprehensively its 1980 financial statements into year end 1980 dollars using the Consumer Price Index published by Statistics Canada. Sales, other expenses (net) and income taxes have been restated to 1980 year end dollars since it is assumed that the level of transactions was even throughout the year. The inventories in cost of sales, together with depreciation and extraordinary items have been restated to year end 1980 dollars from those prevailing at the specific transaction dates. The gain on net monetary liabilities represents a holding gain resulting directly from inflation throughout the year.

The restatement to a constant dollar basis has reduced net earnings by 28% to $68 million due to increases in cost of sales of 7%, depreciation expense 73% and all other expenses 6%. These increases were substantially offset by an increase in sales of 5% and the gain on net monetary liabilities of $26 million.

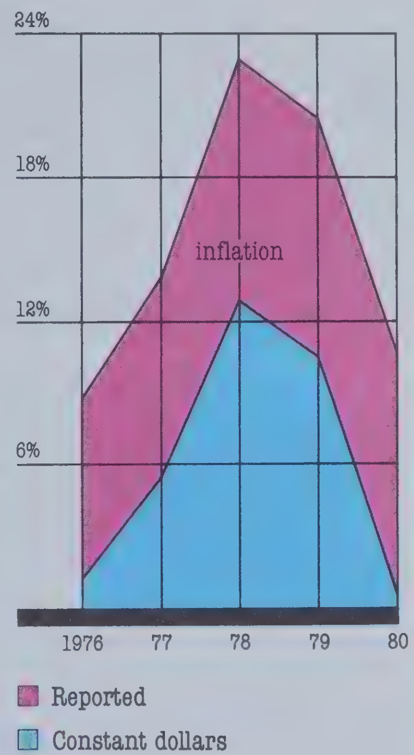
Although 1980 income taxes increased only slightly on a restated basis, it is important to note that the reported effective income tax rate of 40.0% increases to 49.1% on a constant dollar basis. During the previous five year period, Domtar's effective income tax rate has averaged 38.5% on a historical cost basis, but increases to 49.8% on a constant dollar basis. This significant increase results mainly from the inability of businesses to exclude the effects of inflation when calculating taxes.

Since 1975, Domtar has reported in its financial statements annual sales growth ranging from 8.8% to 22.9% for a compound annual increase of 15%. The impact of inflation is evident when the sales are restated into constant dollars, as the annual sales growth ranges from 0.3% to 12.8% for a compound annual increase of 6%.

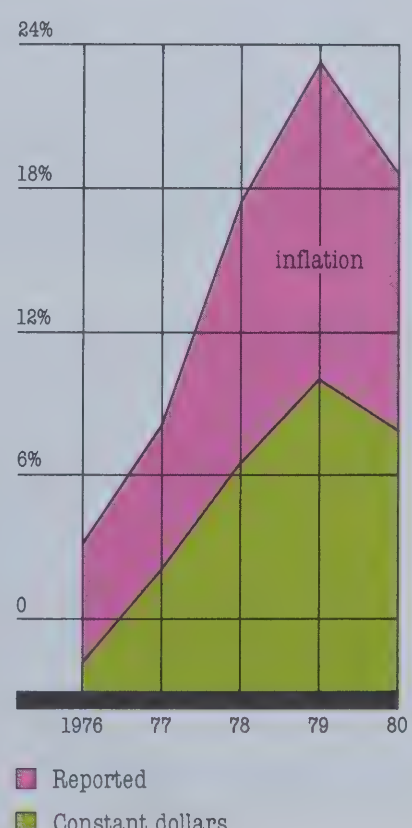
The return on common shareholders' equity is materially affected as a result of the restatement into constant dollars. For 1980, Domtar reported a return on common shareholders' equity of 18.6% compared to 7.9% on a restated basis. Since 1975, the reported return on common shareholders' equity has averaged 14.1% versus 5.1% on a constant dollar basis.

The management of Domtar is providing this additional information to supplement the financial statements prepared in accordance with generally accepted accounting principles. Constant dollar accounting is experimental. Although it does not necessarily reflect the precise impact of inflation, it does however reasonably indicate the real trend of revenues, costs and expenses.

Sales Growth
(percentage increase year over year)



Return on Common Shareholders' Equity



(millions of Canadian dollars except per share amounts and statistical data.)

				1980	1979
Earnings	**Revenues**	Sales	$	**1,653.2**	1,495.4
		Other revenues	$	**15.8**	8.7
	Expenses	Operating expenses	$	**1,435.7**	1,267.0
		Interest expense	$	**15.3**	16.8
		Other expenses	$	**56.0**	53.6
		Income taxes	$	**64.9**	68.5
		Minority interest	$	**0.5**	0.3
		Extraordinary items	$	**2.0**	—
	Net earnings		$	**94.6**	97.9
Financial Position	**Assets**	Cash and short-term investments	$	**155.2**	39.8
		Receivables, inventories and prepaids	$	**441.4**	402.4
		Net fixed assets	$	**584.7**	512.8
		Other assets and intangibles	$	**22.6**	22.0
		Total assets	$	**1,203.9**	977.0
	Liabilities and Equity	Bank indebtedness	$	**3.6**	0.4
		Trade and other current payables	$	**228.0**	211.7
		Long term debt	$	**214.6**	167.0
		Deferred credit	$	**12.3**	—
		Deferred income taxes	$	**148.4**	128.9
		Minority interest	$	**3.0**	3.6
		Shareholders' equity	$	**594.0**	465.4
		Total liabilities and shareholders' equity	$	**1,203.9**	977.0
Changes in Financial Position	**Provided by**	Cash flow from operations	$	**168.0**	163.7
		Long-term financing	$	**120.6**	—
		Other	$	**22.2**	4.2
	Used for	Purchase of fixed assets	$	**116.6**	93.1
		Acquisitions	$	**11.2**	67.3
		Dividends	$	**35.3**	27.2
		Long term debt reduction and other	$	**12.8**	9.4
		Increase (decrease) in working capital	$	**134.9**	(29.1)
		Increase (decrease) in non-cash working capital	$	**22.7**	12.5
		Increase (decrease) in cash items	$	**112.2**	(41.6)
Statistics	**Per common share**	Net earnings	$	**5.66**	6.57
		Dividends	$	**2.00**	1.80
		Cash flow from operations	$	**10.04**	11.01
		Shareholders' equity	$	**33.36**	30.54
		Price range — high	$	**30¾**	29¼
		— low	$	**21¾**	22⅜
	Ratios	Return on capital employed		**12.2%**	14.8%
		Return on common shareholders' equity		**18.6%**	23.3%
		Debt/equity ratio		**27:73**	26:74
	Other Statistics	Number of shareholders — common		**20,882**	19,995
		— preference		**1,415**	1,457
		Common shares outstanding		**17,443,217**	14,841,358
		Employees — number		**18,130**	18,353
		— salaries, wages and benefits	$	**419.2**	389.5

1978	1977	1976	1975	1974	1973	1972	1971
1,240.9	1,009.5	886.8	815.2	897.7	655.8	560.8	516.4
14.0	9.0	11.2	11.9	9.0	6.3	1.4	3.0
1,083.3	916.8	824.0	721.5	716.8	556.7	493.3	461.6
17.0	16.9	14.3	9.5	7.3	7.3	7.9	8.5
51.0	42.9	40.1	35.8	34.1	30.1	29.2	29.0
39.6	13.8	7.9	23.9	64.5	26.6	13.6	9.
0.7	1.3	1.1	1.1	1.5	0.8	0.8	0.8
—	—	—	—	—	—	4.1	8.7
63.3	26.8	10.6	35.3	82.5	40.6	13.3	1.8
100.9	85.1	94.7	86.8	58.0	55.1	20.0	13.8
336.2	297.8	280.3	255.0	280.9	202.8	182.7	173.7
402.8	385.8	378.7	364.3	339.2	294.8	295.8	299.7
23.6	13.8	14.2	15.3	19.1	26.4	26.4	25.2
863.5	782.5	767.9	721.4	697.2	579.1	524.9	512.4
19.9	12.2	7.8	7.8	19.9	9.3	10.2	4.5
158.0	133.8	119.3	114.8	143.5	96.2	62.3	58.8
175.0	173.9	190.5	150.1	108.1	115.2	123.0	127.1
—	—	—	—	—	—	—	—
113.1	103.5	102.5	97.8	85.8	76.5	71.3	67.5
3.2	11.2	13.9	12.2	12.2	11.6	12.4	12.7
394.3	347.9	333.9	338.7	327.7	270.3	245.7	241.8
863.5	782.5	767.9	721.4	697.2	579.1	524.9	512.4
123.0	68.2	49.8	76.3	123.6	73.7	50.4	41.8
—	—	48.9	49.0	—	—	—	—
8.2	4.8	5.0	9.5	11.1	17.3	1.1	3.5
41.0	38.0	44.4	57.7	74.9	43.4	29.6	25.6
33.4	12.7	5.1	—	1.4	—	—	—
16.8	12.4	15.4	24.3	24.3	15.4	9.5	9.5
17.6	21.0	10.0	9.1	11.1	10.0	6.4	18.0
22.4	(11.1)	28.8	43.7	23.0	22.2	6.0	(7.8)
14.4	2.9	20.9	2.8	30.8	(13.9)	5.6	(9.9)
8.0	(14.0)	7.9	40.9	(7.8)	36.1	0.4	2.1
4.23	1.78	0.68	2.34	5.53	2.70	0.86	0.08
1.10	0.80	1.00	1.60	1.60	1.00	0.60	0.60
8.26	4.56	3.32	5.11	8.30	4.93	3.36	2.78
25.78	22.65	21.67	22.00	21.25	17.33	15.63	15.37
24⅞	16⅝	26½	24⅞	28½	26¾	18⅜	15½
14	13¼	13¾	17⅝	18	16½	11¾	9⅛
11.1%	6.1%	3.2%	7.3%	17.4%	9.9%	5.0%	3.5%
17.5%	8.0%	3.1%	10.8%	28.6%	16.4%	7.3%	4.3%
31:69	33:67	36:64	31:69	25:75	30:70	33:67	34:66
20,393	22,244	23,330	25,815	26,920	27,705	34,824	39,027
1,486	1,537	1,613	1,654	1,671	1,784	1,825	1,775
14,827,300	14,827,300	14,827,300	14,827,300	14,827,300	14,827,300	14,827,300	14,827,300
17,414	16,815	17,520	17,637	18,450	18,017	17,436	17,607
337.0	297.3	273.9	232.9	230.7	195.1	175.4	167.4

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